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Impact of Foreign Direct Investment in Banking Sector in India

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ABSTRACT

In India, the banking industry is incredibly dominating. Due to globalisation, Indian banks compete on the basis of their cutting-edge goods and strong financial standing. Since India embraced economic reforms since 1991, the Indian banking system has advanced significantly. Foreign direct investment is being sought after as a vehicle for technology transfers, as a way to achieve competitive efficiency by building a significant global connectivity network, and as a source of non-debt inflows. FDI has made a significant contribution to the improvement of the Indian banking sector's efficiency, the development of novel financial products, and the improvement of banks' capitalization by making them more flexible to changing market conditions.

Keywords: *Foreign Direct Investment (FDI), Economic Growth, Reserve Bank of India (RBI), Private Sector, Public Sector, Non-Performing Assets (NPAs), Insolvency, Bankruptcy, PJ Nayak Committee, Leverage, Liberalization, Organisation for Economic Cooperation and Development (OECD), Capitalization*

Objectives

The objectives of this paper are as under :

1. To investigate the potential for foreign direct investment in the Indian baking industry
2. To study the trends regarding FDI in the Indian banking industry
3. To ascertain the effect of presence of domestic Indian banks on international banks
4. To evaluate the inflows of FDI into the service sector

1. INTRODUCTION

Foreign direct investment (FDI) is defined as an investment made by a corporation or an individual from one nation into another with the goal of starting business operations or obtaining substantial ownership in a foreign enterprise. As a result of increased economic globalisation and the liberalisation of international trade and investment, the notion of FDI arose. Barriers to cross-border investment have increasingly decreased as transportation, communication, and technology improvements have created opportunities for enterprises to expand their activities beyond national borders. FDI has numerous advantages for both the host country and the investing enterprise. For the host country, FDI can result in higher capital inflows, which can be used to finance infrastructure development, enhance production capacities, and stimulate economic growth. FDI also promotes the transfer of technology, knowledge, and managerial expertise from the foreign firm to domestic firms, resulting in increased productivity, competitiveness, and innovation in the host country's industries. Furthermore, FDI contributes to employment creation by allowing foreign firms to establish operations in the host country and hire local people. This can reduce unemployment, boost skills and knowledge, and raise the local population's standard of living. Additionally, FDI can improve exports by offering access to global markets via the investment company's established distribution networks, enhancing the host country's trade balance and foreign exchange earnings. FDI has become increasingly prevalent due to the liberalization of international trade and investment, as well as improvements in transportation, communication, and technology.

The origins of foreign direct investment (FDI) can be traced to the founding of global organisations like the World Bank and the International Monetary Fund (IMF). In order to encourage economic cooperation, development, and to make international trade and investment easier, these organisations were established.
Many developing nations realised the potential of FDI to support their economic progress in the 1950s and 1960s. a number of these nations introduced tax incentives, reduced tariffs, and other favourable conditions as part of their programmes to entice international investors. With the use of cash, knowledge, and technological improvements, these policies attempted to entice international firms to fund economic development.
FDI kept growing during the ensuing decades, especially in the 1970s and 1980s. Multinational firms expanded their operations into other nations to profit from factors including lower labour costs and welcoming investment environments. The expansion of FDI was significantly fuelled by the globalisation of the economy, as businesses looked to access new markets and resources abroad. Many nations started liberalising their investment regulations in an effort to draw in more overseas investors. They enacted changes to lower administrative hurdles, streamline processes, and boost incentives and protection for foreign investors. By making FDI more welcome, these policy measures hoped to promote development and economic progress.

In India, the Foreign Exchange Management Act (FEMA) was passed in 1991, allowing for the introduction of foreign investment. Manmohan Singh, the finance minister at the time, spearheaded this accomplishment as part of extensive economic reforms. The introduction of FDI in India has the following objectives: to open up the economy, draw in capital and knowledge from abroad, promote technological improvements, and generate employment possibilities. FDI has been instrumental in reshaping the world economy over the years. In both developed and developing nations, it has helped with market integration, knowledge and technology transfer, and industry development. Countries have gained access to foreign cash, cutting-edge technologies, management know-how, and international markets thanks to FDI. In conclusion, the groundwork for FDI was created by the creation of international organisations like the IMF and the World Bank. Developing nations established measures to draw foreign investors after realising the potential of FDI in fostering economic progress. With the globalisation of the economy, FDI growth intensified, and many nations then liberalised their investment laws to welcome foreign capital. In the case of India, the FEMA's 1991 adoption of FDI was a key step towards economic reforms and the influx of international capital and knowledge. FDI has emerged as a powerful force driving economic growth, technological advancement, and global integration.

2. COMPONENTS

FDI consists of three different components: Equity capital, reinvested earnings, and intra-company loans. Beginning with equity capital, which is the purchase of shares in a company in a country other than one's own by a foreign direct investor. In this scenario, the foreign investor acquires an ownership stake in the company, providing capital in exchange for shares or equity. This investment grants the foreign investor a level of control and influence over the company's operations and decision-making processes. Equity capital investments can be made through greenfield investments, where new companies are established, or through mergers and acquisitions of existing domestic enterprises. The infusion of equity capital enhances the financial strength of the company and supports its growth prospects.

Reinvested earnings are another crucial component of FDI. When a foreign investor establishes a subsidiary or acquires shares in a company, the profits generated by that company can be reinvested in the host country rather than repatriated to the investor's home country. Reinvested earnings contribute to the expansion and reinvestment of profits within the host country's economy. Reinvested earnings represent a long-term commitment by foreign investors, as they reflect their confidence in the profitability and growth potential of the host country's economy. This component enables the subsidiary or acquired company to finance its own growth, invest in research and development, upgrade infrastructure, and create employment opportunities. Reinvested earnings have a long-term positive impact on the host country's economic development by fostering domestic capital formation and supporting sustainable growth.

Lastly, intra-company loans are financial transactions that occur between a foreign parent company and its subsidiary or affiliate in a host country. These loans involve the transfer of funds from the parent company to the subsidiary or vice versa, allowing for the efficient allocation of financial resources within the multinational enterprise. Intra-company loans provide flexibility in managing financial operations, enabling the parent company to support the subsidiary's capital requirements or meet short-term liquidity needs. This component of FDI facilitates the flow of capital, promotes synergies and coordination between different units of the multinational enterprise, and supports the overall financial stability and growth of the subsidiary in the host country.

Furthermore, there are four types of FDI ; Horizontal FDI, Vertical FDI, Conglomerate FDI and Platform FDI. The most prevalent type of FDI is known as horizontal FDI, which focuses on investing money in a foreign business that is part of the same industry as the one in which the FDI investor owns or operates. Here, a corporation invests in a company that is situated in a different nation and that manufactures comparable items. For instance, the Spanish firm Zara, which also manufactures comparable goods to Zara, might invest in or acquire the Indian firm Fab India. The FDI is categorised as horizontal FDI because both enterprises are part of the same sector of clothing and goods.

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Another form of foreign investment is vertical FDI. A vertical FDI takes place when an investment is made in a company that may or may not be in the same industry, but is still part of a conventional supply chain. Therefore, when vertical FDI occurs, a company invests in a foreign company that may supply or sell items. Backward and forward vertical integrations are additional categories for vertical FDIs. Nescafe, a Swiss coffee manufacturer, might, for instance, invest in coffee farms in nations like Brazil, Colombia, Vietnam, etc. Backward vertical integration is the term used to describe this type of FDI since the investing firm acquires from a supplier in the supply chain. In contrast, forward vertical integration is said to happen when a firm invests in another foreign company that is ranked higher in the supply chain, for example, an Indian coffee company could want to invest in a French grocery brand.

Conglomerate FDI refers to a situation where a multinational corporation (MNC) invests in a foreign country in a business or industry that is unrelated to its core operations or existing business activities. In other words, the MNC expands its operations into an entirely different industry or sector through FDI. As a result, the FDI is not directly related to the investor's enterprise. For instance, the American retailer Walmart might invest in the Indian automaker TATA Motors. Platform FDI, the last type, is monetary investments made by multinational firms to provide a base or platform for controlling and coordinating their international operations. These investments sometimes involve building a central hub or infrastructure to serve the MNC's multiple operations, including production, distribution, R&D, and other value-added services. Platform FDI is used to increase coordination, leverage cost savings, and make it easier for MNC activities to be integrated globally. Platform FDI is widespread in sectors like telecommunications, information technology, and logistics.

3. SIGNIFICANCE

Foreign Direct Investment (FDI) plays a crucial role in the economic development of India. Over the years, FDI has emerged as a significant source of capital inflows, technology transfer, and employment generation, contributing to the growth of various sectors and overall GDP. India has continued to attract huge investments, even during the COVID-19 pandemic, which is evident from the 22 billion worth of direct investments routed in India, out of which almost 98% is from the automatic route, which indicates ease of restrictions in the FDI movement. The ease of investing in India has resulted in a jump of about 79 positions in World Bank's- ease of doing business and is expected to get up to top 50 by the end of this year. The significance of FDI in India can be attributed to several key factors.

One of the significant advantages of FDI is the creation of employment opportunities and its contribution to economic growth. When MNCs invest in a foreign country, they establish new manufacturing facilities or expand their services sector. This leads to job creation, reducing unemployment rates among the educated youth, skilled labor, and unskilled labor in the host country. The increase in employment not only improves the standard of living for individuals but also enhances their buying power, thereby boosting the overall economy.
Another often overlooked advantage of FDI is human resource development. As MNCs invest in a foreign country, they bring with them advanced technologies, operational practices, and training programs. Through these initiatives, the local workforce gains valuable knowledge and skills, enhancing their human capital. This acquired expertise becomes transferrable and can be shared with employees in other local companies, creating a ripple effect of improved human resource development throughout the country.

FDI plays a vital role in the development of backward areas within a country. By investing in these areas, MNCs transform them into industrial centers, leading to social and economic growth. A prime example of this is the Hyundai unit in Sriperumbudur, Tamil Nadu, India, which has revitalized the local economy and brought prosperity to the region. Furthermore, FDI provides recipient businesses with access to financial tools, technologies, and operational practices from around the world. As these new technologies and processes are introduced, they gradually diffuse into the local economy, resulting in increased efficiency and effectiveness within the industry.

In addition to stimulating domestic growth, FDI also contributes to increased exports. Not all goods produced through FDI are intended for domestic consumption; many are targeted for global markets. Through the establishment of 100% Export Oriented Units and Economic Zones, FDI investors are able to boost their exports from the host country, expanding trade opportunities and generating foreign exchange. The constant flow of FDI into a country ensures a continuous influx of foreign exchange, which helps maintain exchange rate stability. This stability is crucial for a nation's economic health and provides confidence to investors and businesses operating within the country. FDI acts as a catalyst for economic development by providing external capital and generating higher revenues for the host country. As factories are constructed, local labor, materials, and equipment are utilized, creating jobs and boosting the local economy. The additional tax revenue generated by these factories can be used by the government to improve infrastructure, further stimulating economic development. Furthermore, FDI brings in much-needed capital, especially for countries with limited domestic resources or restricted access to global capital markets. This inflow of capital contributes to the growth of industries and helps bridge the investment gap in the host country. By facilitating the entry of foreign organizations into the domestic marketplace, FDI creates a competitive environment and breaks domestic monopolies. This competition compels firms to continuously enhance their processes and product offerings, fostering innovation. Consumers also benefit from a wider range of competitively priced products.

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For multinational corporations, FDI provides access to new consumption and production markets, allowing them to expand their influence and business operations. It enables access to resources such as fossil fuels, precious metals, skilled and unskilled labor, management expertise, and advanced technologies. Additionally, tax advantages can be gained through FDI, as companies may benefit from tax deductions on foreign income or advantageous tax codes in the recipient country. India needs FDI because it is an essential catalyst for economic growth and a significant non-debt financial resource for a country like India to prosper economically. Foreign businesses who invest in India take advantage of the country's relatively low salaries to develop technical know-how, which in turn aids the country in creating jobs for its citizens. Foreign investment has been kept coming into India because to the government's supportive policy framework and vibrant business environment. The government has recently made a number of efforts, including easing FDI regulations in a number of industries, including defence, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others.

4. FDI INFLOWS AND OUTFLOWS

FDI net inflows are the value of inward direct investment made by non-resident investors in the reporting economy, including reinvested earnings and intra-company loans, net of repatriation of capital and repayment of loans. FDI net outflows are the value of outward direct investment made by the residents of the reporting economy to external economies, including reinvested earnings and intracompany loans, net of receipts from the repatriation of capital and repayment of loans. These series are expressed as shares of GDP. Inward FDI encompasses all the assets and liabilities exchanged between the foreign investors and the domestic enterprises in which the investment is being made. On the other hand, FDI net outflow signifies the total value of investments made by residents of the domestic country or reporting economy into businesses located in foreign economies. Outward FDI involves the transfer of assets and liabilities between domestic investors and foreign businesses. Inward direct investment is also commonly referred to as direct investment abroad. Recently, the government of India has introduced significant reforms in the norms governing foreign direct investment across various sectors of the economy.

These reforms have been implemented in sectors such as digital media, single-brand retail trade, contract manufacturing, coal mining, and aviation. These changes were proposed in the most recent budget and were prompted by a 1% decline in foreign direct investment equity inflows, marking the first dip in six years. The objective of these reforms is to encourage overseas investors to invest more in India. The government's aim is to attract major technology giants like Apple and entice them to expand their manufacturing operations within the country. By implementing these reforms, the government seeks to create a more favourable environment for foreign investors, enhance ease of doing business, and stimulate economic growth. The intention is to leverage India's potential as a robust and lucrative investment destination, enticing multinational corporations to establish or expand their operations within the country's borders. The government's proactive approach in liberalizing FDI norms reflects a broader strategy to attract global investments, foster innovation, create employment opportunities, and bolster the overall development of the Indian economy. By welcoming foreign investments and encouraging the expansion of multinational corporations, India aims to leverage technology, expertise, and capital inflows to drive sustainable economic growth and ensure its position in the global market.

Extensive research on the patterns and factors that influence FDI (foreign direct investment) inflows into an economy has produced contradictory empirical data. A number of elements, including human capital, market size, trade openness, and interest rates, have been highlighted as major drivers of FDI inflows in the context of Asian emerging states. Numerous studies have used the knowledge-capital model to examine the factors that influence FDI, concentrating on the two main reasons for FDI: vertical and horizontal FDI. A number of important predictors have come to light as influencing factors for FDI inflows among the Asian countries. First and foremost, the GDP difference between the recipient country and the country receiving FDI is quite important. Greater GDP disparities frequently encourage FDI because they offer opportunity for investments and future market expansion. Furthermore, it has been discovered that FDI inflows are impacted by the distance between two countries participating in trade or investment exchange. Greater trade costs and logistical difficulties brought on by greater distances between states may deter FDI. Finally, the costs of trade between the investing and receiving nations also have an impact on FDI inflows. While greater expenses may discourage investment, lower trading costs may encourage FDI. For FDI inflows, elements like low labour costs and market potential have proven to be alluring. Investors looking to take advantage of cost savings and access to growing markets find these features particularly alluring. On the other hand, the Organisation for Economic Cooperation and Development (OECD) countries have recognised market size and the availability of people and physical resources as stimulating factors of FDI Inflow. This shows that variables like the availability of trained workers and the prospect of market expansion influence investors from OECD countries. On the other side, the expenses related to investments may discourage FDI inflows. Many factors are at play when analysing FDI outflows from emerging economies. The distance between two trading nations, the accessibility of trained labour, the cost of investments, the size of the market, trade expenses, and the market's potential are all significant factors. These elements work together to affect how investors make decisions, which has an effect on the FDI outflow from emerging economies. In conclusion, there is a complex interaction of factors that determines FDI inflows and outflows in Asian emerging states.

In conclusion, there is a complex interaction of factors that determines FDI inflows and outflows in Asian emerging states. Market size, human capital, trade openness, interest rates, and various fees for trading and investing are all factors that affect FDI trends. Policymakers and investors alike must manage the complexity of FDI and its ramifications for economic development, thus it is crucial that they understand these processes.

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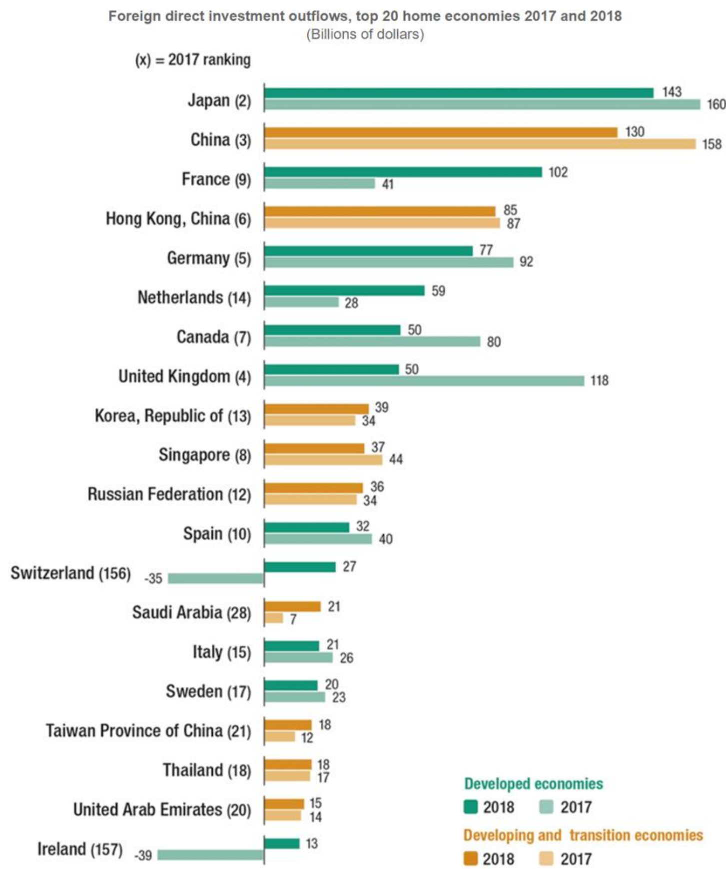
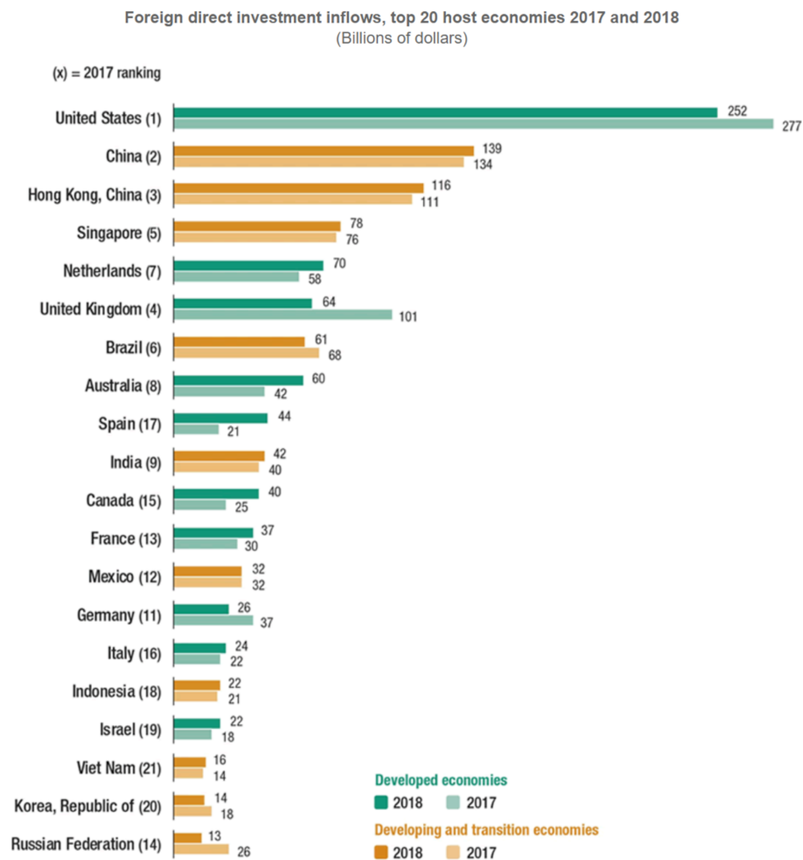


Source: World Investment Report 2019 – Special Economic Zones



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Working of FDI

Foreign direct investment (FDI) is a topic that evokes differing opinions. While some argue that it is essential for economic growth, others believe it leads to increased dependency on foreign entities. However, it is an undeniable fact that FDI plays a crucial role in driving economic growth. Not only does it bring in equity inflows, but it also brings managerial expertise, technical know-how, job opportunities, improved infrastructure, and new technology.

Investors can participate in the Indian market through two routes: the Automatic Route and the Government Route. Under the Automatic Route, no prior government approval is required. This means that foreign investors can invest in an Indian company without having to go through the bureaucracy and various ministries for approval.

On the other hand, the Government Route mandates prior approval from the government. The rules and regulations under this route are more stringent compared to the relatively relaxed regulations of the Automatic Route. However, navigating the process of finding the right investor for a business in India can be challenging and time-consuming. It requires considerable effort and valuable time, which is a precious commodity in today's fast-paced world. In such cases, seeking assistance from an FDI agency can be the best solution. FDI India, for instance, acts as a facilitator for foreign direct investment in India by connecting opportunities with foreign investors. By bridging the gap between investors and businesses seeking investments, FDI agencies play a vital role in promoting investment and fostering economic growth. Raising capital within the country can be difficult and come with various complications. Therefore, businesses often turn to foreign investors to kick-start their ventures. Recognizing this trend, the Indian government has taken steps to regulate and reform FDI norms, making them more accessible and streamlined to attract greater investment into the country. Recently, the government introduced regulations to streamline foreign direct investment norms across several sectors such as digital media, contract manufacturing, single-brand retail, aviation, multi-brand retail, and coal mining. These regulatory changes were made in response to a drop in foreign direct investment for the first time in six years. Foreign Direct Investment in India does not have a uniform rate. Some industries allow 100% FDI, i.e. the entire funds of the business can be from foreign direct investment. The percentages vary from 26% to 49% to 51%. There are a few industries where FDI is strictly prohibited under any route. FDI is prohibited under the Government Route as well as the Automatic Route in the following sectors:

i. Lottery Business including Government / private lottery, online lotteries, etc.
ii. Gambling and Betting including casinos etc.
iii. Chit funds
iv. Nidhi company
v. Trading in Transferable Development Rights (TDRs)
vi. Real Estate Business or Construction of Farm Houses
vii. Manufacturing of Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes
viii. Activities / sectors not open to private sector investment

The government recognized the need to enhance their efforts to attract more overseas investors into the country. In conclusion, foreign direct investment is a crucial driver of economic growth. While opinions on its impact may differ, the fact remains that FDI brings in not only financial resources but also valuable expertise and technology. The Indian government has recognized the importance of FDI and has made efforts to streamline and reform regulations to make the country more attractive to foreign investors. With the assistance of FDI agencies, businesses can navigate the complex landscape of foreign investment and leverage the benefits that FDI brings, ultimately contributing to the growth and development of the Indian economy.

Growth of FDI in the banking sector

The rise of foreign direct investment (FDI) in the Indian banking industry has significantly influenced the financial environment of the nation. In the past, India's banking sector was distinguished by a highly regulated, protected environment with little international involvement. However, the Indian government started on a road of economic reforms, including opening up the banking sector to foreign investors, after the advent of economic liberalisation laws in 1991. The formation of the Foreign Investment Promotion Board (FIPB) in 1991 marked one of the significant turning points in the liberalisation of the Indian banking industry. The FIPB was in charge of reviewing and approving requests for foreign investment in a variety of industries, including banking. Foreign banks and financial institutions started to become very interested in entering the Indian market as a result. Foreign banks focused mostly on representative offices or joint ventures with Indian partners in the early years of liberalisation. They were able to develop connections with Indian banks and learn more about the local market as a result.

However, India's economy grew more robustly and the need for financial services increased, it became clear that more significant foreign investment was needed. The Indian government loosened rules even more in 2005, allowing up to 74% FDI in private sector banks. This action made it easier for more foreigners to participate and opened the door for foreign banks to set up wholly-owned subsidiaries in India. Several well-known multinational banks took advantage of the chance and established their subsidiaries, introducing cutting-edge technologies, financial know-how, and worldwide best practises to the Indian banking

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industry. The FDI infusion into the Indian banking industry has increased competition, enhanced service standards, and given consumers access to a wider choice of financial goods and services. The advent of foreign banks has pushed domestic banks to modernise their technology and practises to stay competitive. Additionally, FDI in the banking industry has improved India's financial resiliency and stability. The presence of foreign banks has improved corporate governance standards and risk management procedures, which has benefited the overall health of the Indian banking system.

Over the past two decades (April 2000 – September 2020), the total FDI inflow in the country has amounted to an impressive $729.8 billion, with the last five years (April 2014 – September 2019) alone accounting for nearly 50% of this total, with $319 billion in inflows. Overall, FDI serves as a stimulant for long-term economic growth, advancing technology, raising competitiveness, and enhancing residents' quality of life in general.

5. REVIEW OF LITERATURE

“Foreign Investment in Indian Banking Sector: A comparative overview” - Honey Gupta and Prof. K. K. Jaiswal Pacific Business Review International Volume 12 issue 106-112 6 December 2020. In this study the researchers have concluded that the banking sector is an important factor contributing to the social and economic development of the country, and in the current era of innovation and information technology, provision of banking services to all parts of Indian is necessary. The study has also concluded the banking sector has shown growth and there has been an upward trend in foreign investment in the private banking sector between 2005 and 2017. A similar trend is not witnessed in the public banking sector due to limit of 20 percent in foreign direct investment that is imposed by the Government of India. The researchers have concluded that banking services can be further improved and should be made available to all parts of the country, and the Government of India should take necessary action to ensure a steady flow of foreign investment into the banking sector.

“An empirical study on Foreign Direct Investments Impact on Economic Growth of India” – Mr. Dhadurya Naik M. SSRN June 5, 2020.” In this study the researcher concluded that the current negative effect of foreign direct investment on economic growth in India can be changed to become positive by virtue of economic reforms that address and improve resource allocation, reduction of regulatory hurdles, increased political and economic stability and diversification of the economy.

“The Role of Foreign Direct Investment (FDI) in India – An Overview” – Dr. S. Shalini International Journal of Research and Analytical Reviews (IJRAR), E-ISSN 2348-1269, P- ISSN 2349-5138, Volume.7, Issue 1, Page No 91-100, January 2020. In this study the researcher has focussed on foreign direct investment in India and the has analysed the pattern of inflows in various sectors in India. The researcher has concluded that the service sector in India has received the highest foreign direct investment, following by the computer software and hardware and the telecommunication sectors. Foreign investment into India was highest from Mauritius and Singapore. The researcher also concluded, based on corelation and regression analyses, that foreign direct investment inflows were not influenced by GDP contribution and industrial growth rate.

“Impact of FDI on banking sector in India” - Dr. Gobind Kumar Das International Journal of Applied Research 2020; 6(10) 469-471. In this study the researcher has concluded that foreign direct investment (FDI) facilitates economic improvement in countries. FDI in the banking sector addresses issues relating to inefficient management, non-performing assets, financial instability, and lack of funding for capitalization. The researcher has also concluded that FDI enables the banking sector to improve technology, risk management, financial soundness, and allows innovation of better products, and address and improve employment related issues, and that FDI in the banking sector has been increasing in India.

“Foreign Direct Investment and Economic Growth in India: A Sector-specific Analysis” – Shib Shankar Jana, Tarak Nath Sahu and Krishna Dayal Pandey Asia-Pacific Journal of Management Research and Innovation 15(1-2) 53-67, 2019. In this study the researchers examine how foreign direct investment (FDI) into agriculture, manufacturing and the service sectors affect the growth of the respective sectors rather than the overall growth of the economy. The researchers found that FDI in agricultural sector does not have a positive impact on the growth of the sector in India because this sector is lacking an infrastructure and technology base that resulted in poor investment absorption capacity. FDI in the manufacturing sector positively impacted the output for a few years only, after which it generated negative impact because purely domestic manufacturing entities were unable to compete and were therefore forced to close, thereby reducing the overall output in the manufacturing sector. The same view was taken regarding FDI in the service sector. The researchers concluded that without development of the agricultural and manufacturing sectors, India may not be able to sustain the growth of the service sector also because substantial demand for the service sector comes from the other two sectors. Overseas demand for the service sector in India is also notable. The researchers recommend that the Government of India should take steps to revitalize other economic sectors, improve the ‘spillover effect’ of FDI in the manufacturing sector, and take the necessary steps to improve the effects of FDI in the agricultural sector.

“Impact of Foreign Direct Investment (FDI) on Productivity & Profitability of Banking Industry in India” – Arpan Mahapatra, Dr. Puspalata Mahapatra, Dr. Bhagirath Nayak and Srinivas Subbarao Pasumarthi Journal of Critical Review Vol 6 Issue 3 2019.” In this study the researchers have concluded, based on statistical analysis, that foreign direct investment (FDI)

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has a moderate impact on the Indian banking sector with respect to six factors (mentioned therein) and a varied impact with respect to other factors (mentioned therein) under under productivity and profitability of Indian private and public sector banks.

"Foreign Direct Investment in Banking Sector" - Swati Rawat International Journal of Management, IT and Engineering Vol 9 Issue 6 June 2019". In this study the researcher has concluded that foreign direct investment (FDI) is one of the primary factors contributing to India's growth and global recognition. FDI in the services sector (including banking sector) allows innovation, improvement of technology and risk management, facilitates financial stability, increases employment opportunities, and supportive policies by the Government. The researcher has also concluded that FDI has assisted the service sector to increase output, profitability, and productivity. Additionally, the Reserve Bank of India has taken several steps to allow banks to access customers in villages in India. Lastly, it is concluded that as the customer base increases, the per capita income will also increase as a result.

"The Role of FDI in development of Indian Banking Sector" – Dr. Nishikant C Dhande and Prof. Anshuman Vijay Magar Indian Journal of Advance Research in Computer Science and Management Studies Special Issue, February 2017, Volume 5, Issue 2. In this study the researchers have concluded that foreign direct investment (FDI) contributes to the economic development of the country receiving the funds, the service sector is the primary recipient of FDI in India, the banking industry encourages saving by introducing various schemes, FDI in the banking sector is necessary because of the lack of domestic capital, and the FDI policy should be consistent with the regulations issued with the Reserve Bank of India. The researchers have also concluded that Mauritius and Singapore were the largest contributors of FDI. FDI in the banking sector makes its more efficient and in turn facilitates the growth of the Indian economy.

"Emerging trends in FDI in Banking sector and its impact on Private Sector Banks in India" – Dr Shaikh Aftab Anwar International Journal of Research Culture Society Vol 1 Issue 2 April 2017. In this study the researcher has concluded that foreign direct investment (FDI) in the private banking sector generates employment, improves infrastructure and amenties in India, and facilitates industrial development and growth.

"Role of Foreign Direct Investment (Fdi) in Indian Banking System" – Vaibhav Srivastava Indian Journal of Applied Research Volume 5 Issue 1 276-278 January 2015. In this study the researcher has concluded that the banking industry has offered several products to encourage saving for retirement, foreign direct investment in the banking sector is required as the domestic fund-raising capacity is inadequate, and the foreign investment policy for the banking sector should be consistent with the regulations issued by the Reserve Bank of India.

6. RESEARCH METHODOLOGY

Research methodology is the specific approach or course of action or used to identify, choose, examine, and study information about a particular subject matter. The research methodologies used in this paper are exploratory and descriptive. Exploratory research is a method is used to understand and examine the issues, and not to provide a specific solution to the problem that is being studied. Descriptive research is a method relies on reporting and analysing facts that have been determined by observation, surveys, or case studies.

Statistical tools adopted:

The collected data was processed and evaluated with the help of pie chart presentations.

Sampling technique:

This paper used a questionnaire which consists of 12 general basic questions on the subject made with the purpose of collecting first-hand information

Hypothesis:

The hypothesis proposed is as mentioned below:
H0 – Foreign direct investment has neither increased in the banking sector nor helped the growth of the sector
H1 – Foreign direct investment has increased significantly in the banking sector due to liberalisation and globalisation leading to its higher growth

Data types and sources:

Primary data refers to the data that has been collected by the researcher the first time. Secondary data refers to existing data that has been collected and analysed by other persons or institutions. Primary Data is data that has been collected in real time and therefore reflects the current view or position. Secondary data on the other hand usually has already been gathered and collected and therefore, may be dated. Primary Data collection can be more time consuming and costly as compared to Secondary Data collection. Sources of primary data are surveys, observations, experiments, questionnaires, and personal interviews. Sources of secondary data are publications, journals, books, articles, internal records, and websites. Primary data is specific to the needs of the researcher, and furthermore is usually more reliable and accurate. Secondary data may not specifically address the questions or

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issues of the researcher. Primary data is available in the raw form whereas Secondary Data is the refined form of primary data. It can also be said that secondary data is obtained when statistical methods are applied to the primary data. In this paper both primary and secondary data are used.

Population:
Maximum number of both males and females who are familiar with Banking and FDI to which the results are applied

Sampling frame:
A random list of diverse people from the selected area who work in various occupations was established in order to conduct non-profitability sampling

Sample size:
Sample size of 70 respondents was selected to make the study meaningful.

Study area:
Mumbai's whole city is counted for the research. Mumbai should be aware of FDI and banking system because it is India's financial centre.

Limitations:

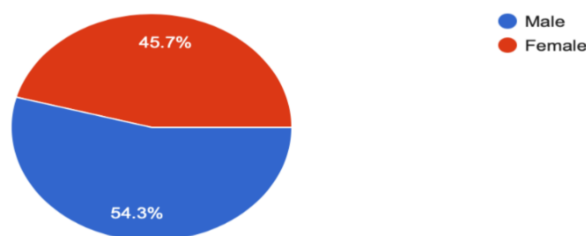
i. The primary data collected was limited to the city of Mumbai and was not collected pan India.
ii. The knowledge of some of the respondents was limited.
iii. Secondary data on the topic was limited and dated.
iv. There may have been potential biases in the selection of respondents, as certain demographic groups may have been overrepresented or underrepresented in the sample.
v. The research did not collect qualitative data.

Data Analysis and Presentation

We took the survey: questionnaire method and results were as follows: we got 70 responses to the compulsory questions asked below:

What is your gender?

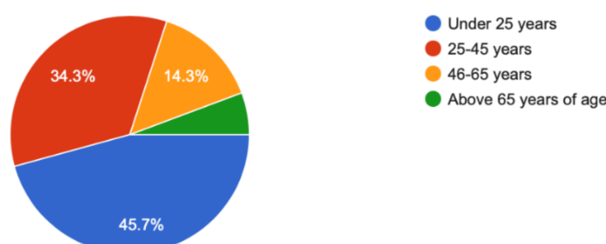
70 responses



- From this chart we can see that both the male and female respondents are almost equal

What is your age group?

70 responses



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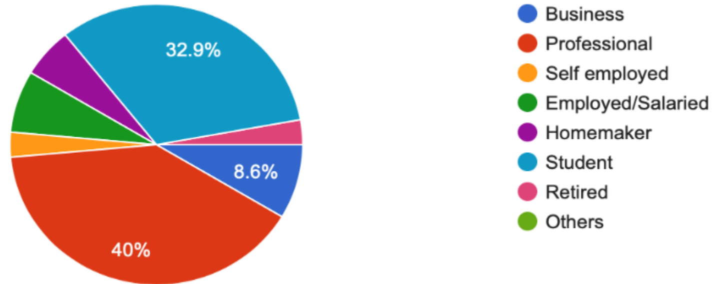
- This depicts that a high percentage of respondents are under the age of 25 years and very few percentage are over the age of 65.

What is your profession?

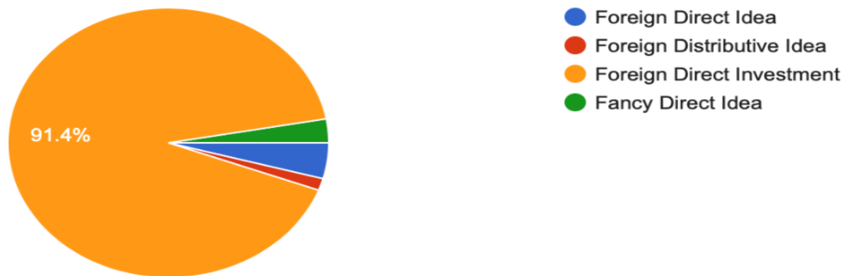
70 responses



- This chart exhibits that very few respondents are retired, and majority area professionals

Abbreviation of FDI stands for:

70 responses



- This depicts that majority of the respondents know the meaning of the abbreviation FDI

What is FDI?

70 responses

- This depicts that a majority of the respondents know what FDI means.

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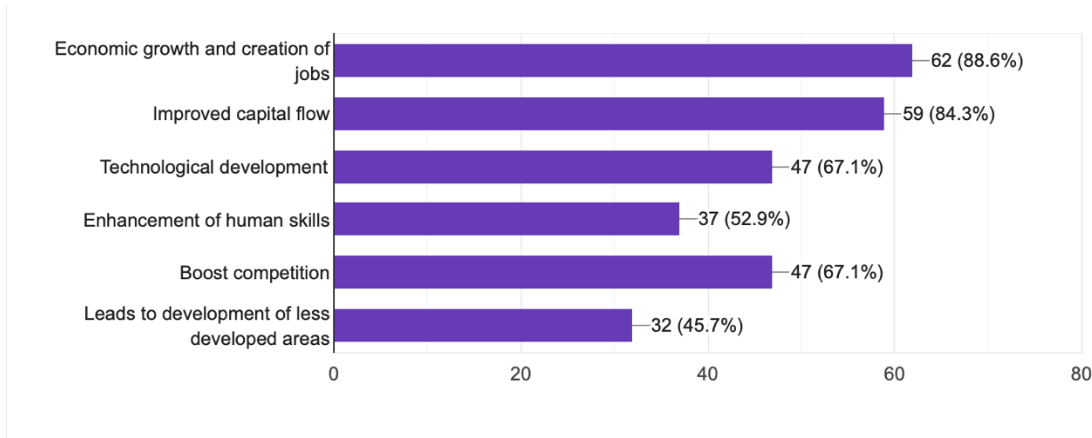
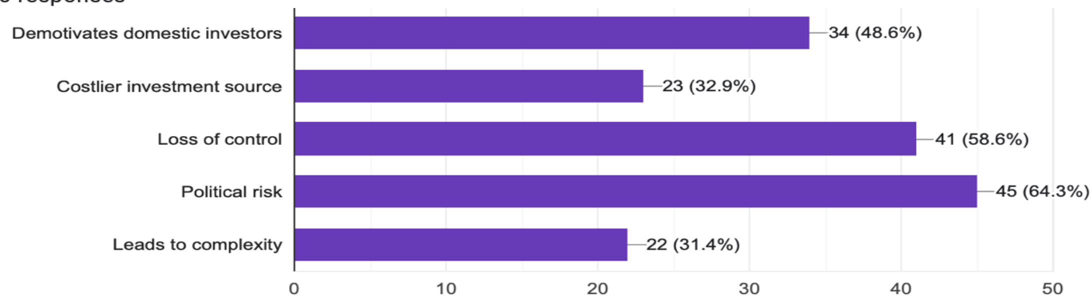
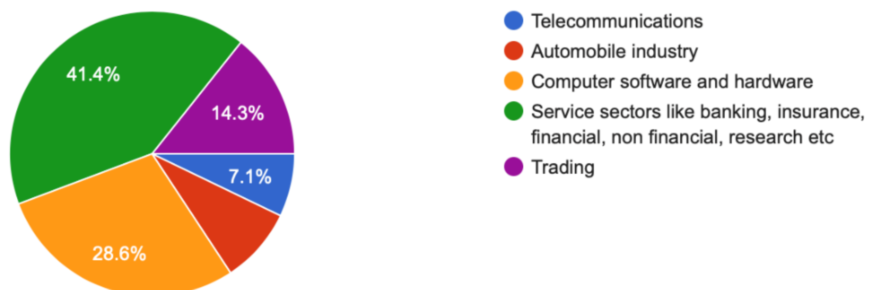




- This depicts that a majority of respondents believe that the main benefit of FDI is that it leads to economic growth and creation of jobs



This depicts that according to the respondents highest FDI was in the service sectors followed by the computer software and hardware industry

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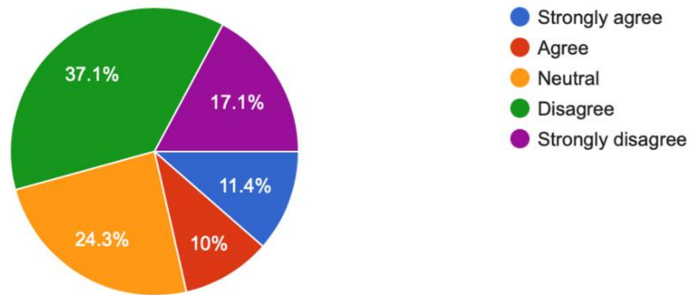
FDI is only beneficial to host countries

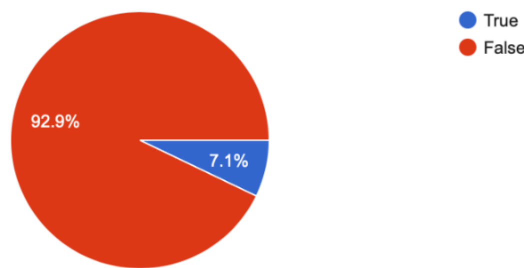
70 responses



- This depicts that most respondents believe that FDI is not only beneficial to host countries

In India, 100% FDI is allowed in all the sectors

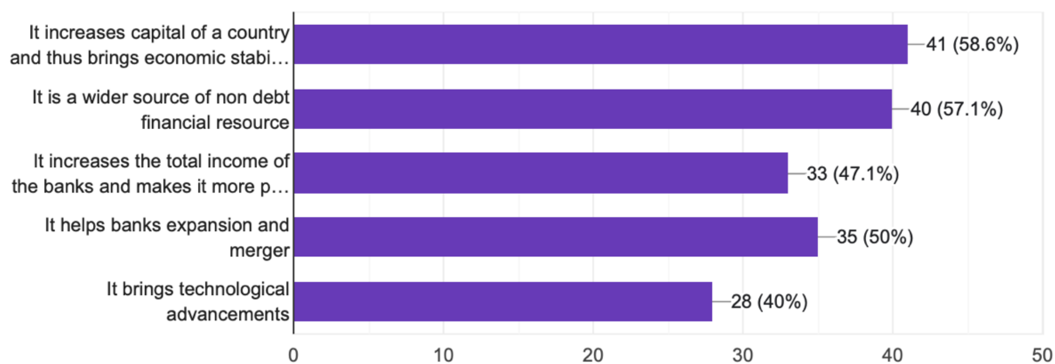
70 responses



- This depicts that a majority of the respondents believe that 100% FDI is not allowed in all the sectors.

Why is FDI essential in banking sector?

70 responses



This depicts that almost an equal number of respondents believe that FDI is essential in the banking sector because it increases capital of a country and thus brings economic stability and that is a wider source of non-debt financial resource

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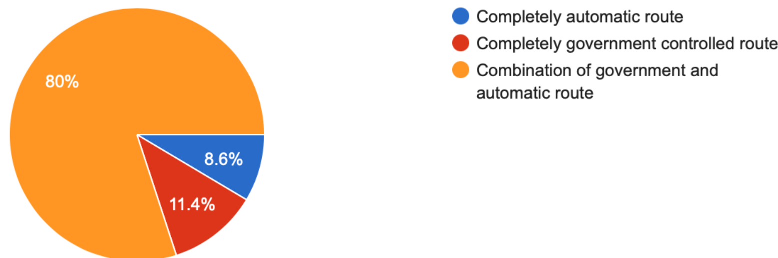

- This depicts that a majority of the respondents believe that FDI in the banking sector should be permitted through a combination of government and automatic route

7. CONCLUSION

Beginning with the provision of capital, contemporary technology, best practises, novel ideas, a creative environment, and other things, foreign direct investment is playing a significant role in the case banking business. Additionally, FDI expressed interest in the freedom, stress-free working environment, pleasant surroundings, and job satisfaction of banking personnel. FDI helps banks management make the greatest decisions at the appropriate moment by providing the finest guidelines. Eventually, FDI must take care of society's social obligation. FDI in the banking sector may address a number of issues, including poor capitalization, ineffective management, non-performing assets, and financial instability.

After China and the United States, India is regarded as the third most popular investment location worldwide. In India, FDI equity inflows into the banking sector have been rising year over year. For India to accomplish the goals of its second generation of economic reforms and maintain this rate of growth and economic development, FDI is required as a strategic component of investment. Therefore, FDI has a substantial impact on India's rate of economic growth. By improving the nation's financial situation, it offers a solid foundation for economic growth and development. Additionally, it helps the nation's GDP and foreign exchange reserves.

In order to assure the recovery and provision of Non-performing Assets (NPAs), RBI introduced the Insolvency and Bankruptcy Code in 2016. To guarantee that the spread of NPAs stays a thing of the past, the essential laws are in place. One solution suggested by the PJ Nayak committee is the further consolidation of public sector banks, while the introduction of a bank investment corporation is another. The government's equity is reduced when all public sector banks are consolidated into a single holding company, whose interest (less than 51%) can be sold. Adding banks to the Companies Act is one other solution. Both of these concepts will increase operational effectiveness and provide more autonomy overall.

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Appendix:
Questionnaire

1. What is your gender?*
- ○ Male
- ○ Female

2. What is your age group?*
- ○ Under 25 years
- ○ 25-45 years
- ○ 46-65 years
- ○ Above 65 years of age

3. What is your profession?*
- ○ Business
- ○ Professional
- ○ Self employed
- ○ Employed/Salaried
- ○ Homemaker
- ○ Student
- ○ Retired
- ○ Others

4. Abbreviation of FDI stands for:*
- ○ Foreign Direct Idea
- ○ Foreign Distributive Idea
- ○ Foreign Direct Investment
- ○ Fancy Direct Idea

5. What is FDI?*
- ○ It is an ownership position established by an investor, business, or government from another nation in a foreign enterprise or project
- ○ It is the Federal Bureau especially set up for investigation
- ○ It is a multinational public sector company which provides financial services
- ○ Food and grain procurement, distribution, and storage are handled by this agency

6. What are the benefits of FDI?*
- ▪ Economic growth and creation of jobs
- ▪ Improved capital flow
- ▪ Technological development
- ▪ Enhancement of human skills
- ▪ Boost competition
- ▪ Leads to development of less developed areas

7. What are the disadvantages of FDI? *
- ▪ Demotivates domestic investors
- ▪ Costlier investment source
- ▪ Loss of control
- ▪ Political risk
- ▪ Leads to complexity

8. FDI is highest in which of the following sectors?*
- ○ Telecommunications
- ○ Automobile industry
- ○ Computer software and hardware
- ○ Service sectors like banking, insurance, financial, non-financial, research etc
- ○ Trading

9. FDI is only beneficial to host countries*
- ○ Strongly agree
- ○ Agree

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- Neutral
- Disagree
- Stromnyl disagree

10. In India, 100% FDI is allowed in all the sectors*
- True
- False

11. Why is FDI essential in the banking sector?*
- It increases capital of a country and thus brings economic stability
- It is a wider source of non-debt financial resource
- It increases the total income of the banks and makes it more productive
- It helps banks expansion and merger
- It brings technological advancements

12. FDI in the banking sector should be permitted through which of the following routes?*
- Completely automatic route
- Completely government controlled route
- Combination of government and automatic route

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