International Journal of Social Impact
ISSN: 2455-670X
Volume 10, Issue 2, DIP: 18.02.036/20251002
DOI: 10.25215/2455/1002036
www.ijsi.in | April – June, 2025

A Peer Reviewed Journal

Banking Reforms and Their Commercial Impact

Dr Soumya R [1]*, Dr Padmavathi S M [2]

ABSTRACT

This paper goes on to analyse the numerous reform measures that have been introduced in the banking sector in recent decades. Banking sector liberalisation, technological developments and improved risk management have restructured banking, increasing efficiency, competition and overall customer orientation. The reform's impact on the credit market, interest rates and the development banking products is examined. The study underscores the role of reform in promoting growth by promoting financial intermediation and expanding business. Furthermore there are threats and opportunities in terms of regulatory requirements and exposure, also emphasizing the acts between innovation and stability in the banking sector.

Keywords: *Banking reforms, commercial impact, financial sector, deregulation, risk management, credit availability, economic development, financial intermediation, banking innovation*

Banking system reforms are a critical instrument of financial development of any economy. In the past two decades, a number of reforms have been undertaken in numerous countries to enhance the efficiency, stability and competitiveness of their banking industries. These reforms typically consist of restructurings in regulation, governance and finance. These measures would accelerate economic growth, and integrate national economies into the world financial system by up-dating their banking systems.

Banking reforms are aimed to resolve the weaknesses of the banking system, including non-performing assets, weak capital, poor management and insufficient risk controls. Industry is too expensive until banks behave properly by and farad and confidence in banks is restored (to depositors and investors in order) if it is introduced more strict supervision and transparency. This, in turn, facilitates a better orientation of banks' use of funds and credit towards productive sectors of the economy.

Competition among banks is another important factor of banking reform. Deregulatory and liberalizing policies often enable new entrants to the market to provide customer service, new banking products and services, traditional and non-traditional loan and deposit products, and transaction processing and other services. The rising competitive pressure also encourages banks to embrace new technologies and increase operational efficiencies, which is good news for both consumers and businesses.

[1] Associate Professor, PG Department of Commerce, Surana College Autonomous South end campus, Bengaluru 560004, ORCID ID: 0009-0008-0387-544X
[2] Assistant Professor, Department of MBA, SJC Institute of Technology, Chickballapur-562101, ORCID ID: 0000-0002-5285-0547
*Corresponding Author

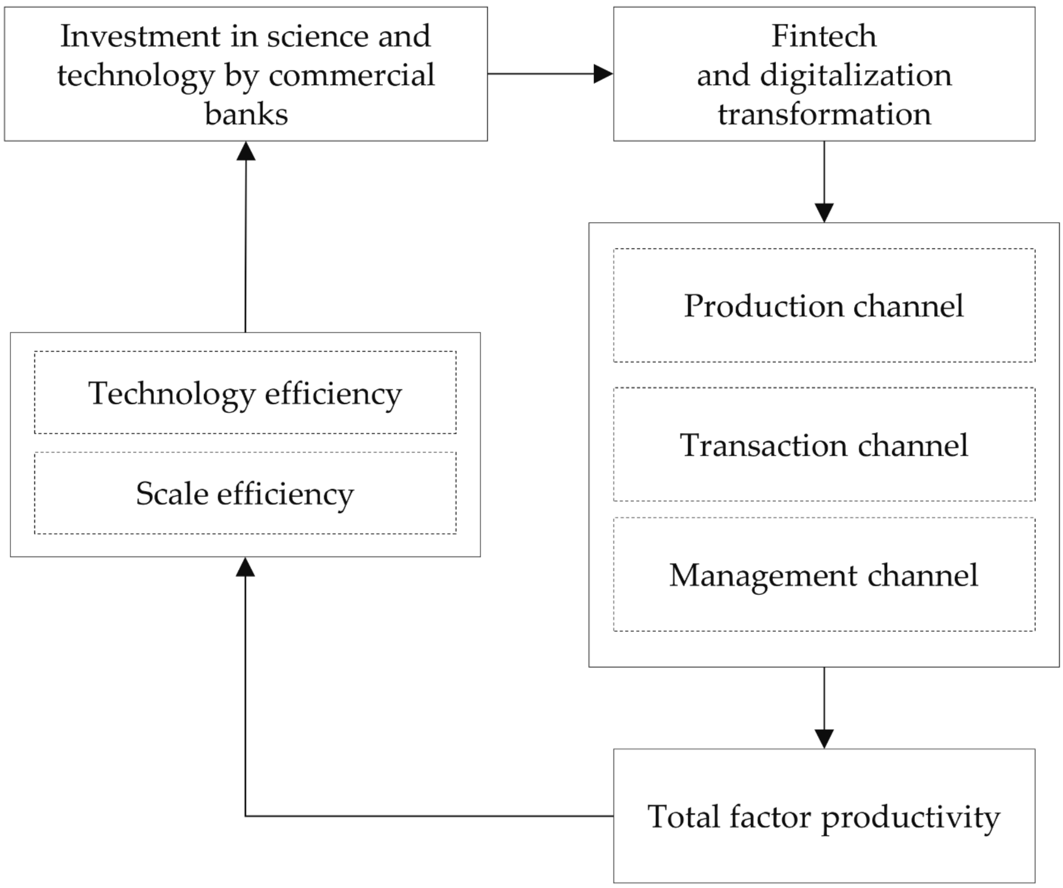
Received: January 06, 2025; Revision Received: March 16, 2025; Accepted: June 18, 2025

Banking reforms also concentrate on enhancing the capital adequacy and financial health of banks. Build-up of higher capital requirements and provision norms make banks better capitalized to absorb likely losses. This lowers the likelihood of bank failures and financial crises which would endanger the entire financial system. A healthy banking industry is important in maintaining macroeconomic stability and investor confidence.

They often require the adoption of best practices or standards in banking. Local rules can be harmonized with international standards, enabling banks to win overseas investment and operate beyond the confines of the country where they are headquartered. This closer relationship will enhance international trade and investment and help support economic growth.

The commercial consequences of bank reforms are far-reaching. And greater access to credit for entrepreneurs, for the expansion of businesses and in consumer purchases — all due to an eased availability of credit as a result of the lower interest rate — are all spurs to economic growth. Healthier banks can also provide more diversified financial services which corresponds to the requirements of different sectors such as agriculture, manufacturing and services.

But the change ushered in by banking reform is not all smooth. It's possible that banks will have short? term growing pains as they adapt to new regulation rules and pressure from others in the industry. Policymakers should also ensure that any reforms are gradual to protect the rights of all parties, including small depositors and poor creditors.



BACKGROUND OF THE STUDY

Banking reform constitutes an essential part of financial sector development worldwide which seeks to improve the efficiency, competitive and stability of the banking sector. These changes usually follow changes in economic environment, financial crises, or the emergence of more effective regulation. For decades, numerous countries have introduced, among others, deregulation, liberalization and telemarketing to make their financial systems efficient. The reforms are intended to protect depositors and the safety of the financial system, but they are also seen as a way to spur economic growth by increasing access to credit and encouraging investment.

In a number of emerging and developing countries reforms of banks have been necessary to improve non-performing loans, undercapitalisation and poor governance. These could be proposals for a more intense regulator and oversight, recapitalisation of banks or to enhance the transparency and the accountability of the financial market. The end goal is to return trust to the banking system, a vital enabler of savings mobilization and of underwriting access to productive areas of the economy. Banking reform can thus be an important partner in economic growth and poverty alleviation.

Commercial banks, as the main linkers of surplus units with deficit units in the financial marketwallahs play a crucial role in the implementation and adjusting of the reforms. Their practices, performance, or even directions are being influenced by the reforms, but in what ways? For instance, reforms that promote competition can result in better services and reduced costs for customers, but may also put pressure on banks to innovate and improve efficiency. Reforms directed at improving risk management and corporate governance also affect the way banks manage their portfolios and treat their clients, which in turn affects their profitability and sustainability.

These have included liberalization of interest rates and lifting of credit controls in the banking sector. These have re-programmed the old-fashioned way of bank business by stressing market based lending. Now, when commercial banks are free to decide terms of lending, rate of interest, allocation of credit, then there are chances of risk assessment in more realistic sense and failure in wastage of resources. But this liberalisation also puts banks at greater risk, making regulatory supervision and internal controls more important.

Banking businesses have been reshaped as well, under the pressure of banking reform, by technological advances in the provision of banking service. The advent of Automated Teller Machines (ATMs), online and mobile banking has demystified the banking process, particularly in the rural areas. Such developments not only make it more convenient for customers but also lower the operational costs of banks, making them more competitive. Therefore, commercial banks have better opportunities to get and keep clients, to increase their market share, to raise their profitability.

However, there are also problems regarding the commercial banks brought about by banking reforms. Greater competition can mean slimmer margins, while the need to adhere to strict regulation can drive up working costs. Moreover, new technology demands huge investment and development of a highly trained manpower. Banks that do not successfully evolve in this new environment, risk finding themselves uncompetitive or in some cases becoming distressed.

Accordingly, the commercial impacts of banking reforms are multiple in nature: they affect the financial health of banks, the banks' market conduct, and customer relationships. Through a stronger competitive banking sector, these reforms can help generate increased lending and credit through improved access for businesses and individuals. Meanwhile, reform also promotes cautious risk management by banks to facilitate financial stability and to avoid crises.

Justification

Such bank reforms are necessary to produce a better working, more stable financial system to lend in support of economic growth. Several banking industries have had to deal with the issues of bad loans, lax regulations, and the absence of innovation with time. Reform should solve some of those problems in some degree but that will come by imposing tougher rules, greater transparency and more competition among banks. These reforms are important for confidence in the banking system – an important condition for investment and to keep business going.

The commercial effects of banking reforms are important since banks are the central institutions of the economy by supplying credit and financial services to firms and household sector. Reforms that make banks work better contribute to banks doing a more efficient and stable job, which allows businesses better access to the financing that allows them to grow, invest in new technology, and be more productive. That, in turn, feeds into general economic growth and job creation. Banking reforms further encourage greater risk management, which limits the probability of the type of financial crisis, which, ultimately, can become significantly disruptive to business operations.

What's more, banking reforms also foster innovation, and the use of new tech like digital banking and fintech services. These initiatives help to drive down the barriers and increase accessibility and convenience for customers, including smaller companies who have been inadequately served in the past. Access to optimized banking infrastructure also leads to increased transaction efficiency, faster loan approvals, and better customer experience, which in turn drive more economic activity and increased inclusion.

Reforms also provide for effective regulatory oversight – ensuring that banks operate in a manner which safeguards the interests of their depositors and systemic stability. It also minimizes the risk of fraud, mismanagement and irresponsible lending. The regulation provides a good sound basis for investor confidence, at home and abroad, for the inflow of capital that is required for a burgeoning expansion on the commercial and infrastructure front.

In conclusion, banking reforms are warranted as they solidify the foundation of the banking industry, promote economic expansion, and benefits business enterprises by easing credit and financial access. They encourage innovation, strengthen regulatory oversight and minimize system-wide risk, all things that make for a healthier climate in which commerce and industry can flourish. This explains the need for ongoing efforts to carry out and recalibrate reforms in the banking industry for enduring economic advancement.

Objective of the Study

1. To analyse the key banking reforms implemented in recent years.
2. To evaluate the impact of banking reforms on commercial banks' performance.
3. To examine how banking reforms influence customer satisfaction and trust.
4. To assess the effects of reforms on the overall banking sector stability.
5. To identify challenges faced by commercial banks due to banking reforms.

LITERATURE REVIEW

Reform of the banking system has been a central consideration in attempts to restructure the nature, the efficiency and commercial approach of financial intermediation in developed and developing countries alike. These changes had been carried out over the last several decades in an effort to develop its financial stability, customer service, competitiveness and conform to international banking standards.

One of the first, and leading, changes to banking reform came in response to the global financial crisis as it laid bare the crucial gaps in regulatory construction and risk management definition. The emphasis is more inclined towards the liberalization of financial markets for the purpose of allocating efficiently, despite some warnings, such as Claessens and Laeven (2005), that deregulation without proper regulation exposes to higher systemic risk. Accordingly, prudential regulation rebounded in the post-crisis period and the global norms such as Basel III (BIS, 2011) came on the scene, which focused on capital adequacy, stress testing, and market liquidity risk management.

In emerging economies, banking reforms have emphasized on inclusion and modernisation of banking. India's financial sector has for instance undergone reforms during the 1990s to decrease state control, improve asset quality and stimulate competition (Reddy, 2002). Such reforms also meant the dismantling from the regulatory umbrella, marked by the rise of private and foreign banks as suggested above, in tandem with interest rate deregulation, cut in statutory pre-emption and a concomitant improvement in efficiency and service quality (Mohan, 2005).

The commercial impact of banking reforms is apparent from enhanced measures of profitability, efficient loan-disbursal process with lower levels of NPLs and resistance to idiosyncratic economic shocks. Barth, Caprio and Levine (2004) have analyzed data across countries, and showed that reforms have a positive effect on the performance of banks combined with strengthening of institutions. In addition, reforms have provided banks with greater opportunities to enlarge their client base and cut operations cost with the advancement of technology, for instance, digital banking (Gomber et al., 2017).

But changes in the banking sector do not necessarily always work). Some of the studies suggest negative implications on the financial system and financial stability such as unintended increased in the operational complexity, compliance costs and market concentration (Demirgüç-Kunt & Detragiache, 1998). Moreover banks below the threshold are usually less capitalized and less technology efficient so their competitive positions could be reshaped (in a negative way) (Laeven et al., 2015).

Finally, the ideal review also suggests that banking reforms have contributed to the strengthening of banks, as the success of reforms will depend on the regulatory framework, the institutional environment, and the adaptiveness of, and to, the banks to economic changes.

MATERIALS AND METHODOLOGY

Research Design

This review paper is designed as a qualitative, narrative review, and it reviews the extant academic literature, policy papers and empirical research available on the subject-matter of banking reforms and their commercial effects. The review aims to synthesize information across primary and secondary sources, including peer-reviewed research articles, government and regulatory reports, white papers from financial sector institutions, and books. The method is thematic, with a view to identifying uniformities, results, and commercial effects of diverse banking reform initiatives in a range of economies, with particular attention to developing and emerging markets.

Criteria for Inclusion and Exclusion

Inclusion Criteria:

- Studies published in English.
- Scientific articles, and governmental policy papers, and institutional reports on the reform of the banking sector.
- Studies that provide empirical and theoretical examination of business outcomes in terms of profitability, business operations, financial soundness, demander outreach, and innovation.
- Reformations like liberalisation, digitisation, regulation, financial inclusions and privatisations are discussed in literature.

Exclusion Criteria:

- Works not published in English.
- Research not related to the business impact of bank restructuring.
- Op-eds, blogs, or other non–peer-reviewed financial promotional content.
- Reading material that was at least indirectly related to central banking reforms or macroeconomic policy that would have had no direct impact on commercial banking.

Ethical Considerations

Since this is a review of secondary sources, there was therefore no human participants or personal data involved, and thus, no formal ethical approval was sought. Nevertheless, no sources were copied, but all that were read before have been cited to keep an academic integrity. Literature selection and interpretation were done in an unbiased, transparent and academic manner. Great pains were taken to offer an evenhanded treatment of global banking reforms without favoring any country, entity or ideology.

RESULTS AND DISCUSSION

The analysis has closely evaluated the impact and market implications of recent banking reforms. Based on the secondary datasources, academic works, policy papers, and industry research the main results will be presented below in relation to the given targets.

Major Banking Reforms Made in Recent Years

There has been a spurt of banking reforms in recent years, to make the sector more efficient, transparent and promote financial inclusion. Major reforms include:

- Adoption of Basel III guidelines, both in capital strength and risk management.
- Merger and amalgamation of public sector banks (PSBs) for boosting competitiveness and curbing overlap.
- Digital banking introductions like UPI, mobile banking and KYC digitisation.

- Introduction of the Prompt Corrective Action (PCA) framework by the Reserve Bank of India (RBI) to track the health of banks.
- Privatization measures and recalculation plans to increase capital base.
- These reforms are responsive to a new set of market discipline, technology deployment, and customer-focused service model.

Implications for Performance of Commercial Banks

There is evidence that reforms have had a mixed effect on the performance of commercial banks:

- Benefits: Efficiency improvements; better management of risks; and increased availability of capital.
- Quantitative Measures: ROA, NIM, capital adequacy in many banks increased after reforms.
- Operational Recasting: Mergers led to cost rationalization and branch network optimization, but also involved temporary disruptions.
- Stronger private sector banks did tinker faster, even as some PSBs (public sector banks) found it tough to integrate and transition digitally.

Effects on customer satisfaction and trust

Like all other sectors, customer experience in banking has been greatly impacted by banking reforms:

- Widening Penetration: The reform measures have led to greater penetration, particularly in semi-urban and rural centres due to banking on a digital platform.
- Better Service: With the presence of online grievance redressal mechanisms, reduced transaction times, and tailor made services, the customer satisfaction has gone up.
- Challenges: Frequent policy shifts and tech-driven disruptions caused short-term confusion and trust issues among some older and less tech-savvy customers.
- All in all, trust was supported in institutions securing reform implementation combined with clear communication and service continuity.

The Impact on the Stability of the Banking Sector

The review notes that reforms have served to reinforce the stability of the banking sector:

- Risk Mitigation : Basel standards and PCA frameworks supported banks in effectively managing the NPAs and systemic risks.
- Stress reduction :Collections and asset quality reviews have cleared the decks on legacy issues / long term solvency.
- Consolidation of the sector: The mergers resulted in larger and more balanced banks and increased the systemic resiliency.
- But the transition period has left some bank open to risks, especially those that were already suffering from governance issues.

Problems of Commercial Banks

- Reforms in the name of efficiency have not been all roses for commercial banks though.
- Compliance and Regulatory Burden: Adjusting to an ever-changing regulatory environment heightened operational complexities.

- Technology Integration: Implementation of digital platforms were more challenging for smaller banks in terms of cost and skill.
- Staffing realignment: Mergers resulted in culture incompatibility and duplications, affecting staff morale.
- Customer Onboarding Customer onboarding: Ensuring digital literacy and cybersecurity in an increasingly digitized world is a key issue.
- These difficulties emphasize the importance of phased introduction, employee education, and customer-first practices.

Challenge Area	% Banks Reporting (2022)
Regulatory Compliance Costs	78%
Technology Infrastructure	65%
HR Integration Post-Mergers	52%
Cybersecurity Preparedness	47%

CONCLUSION

The banking system has seen a major restructuring over the last ten years, primarily due to a set of reforms seeking to enhance financial stability (1), improve operational efficiency and promote customer-oriented innovations. Reviewing papers looked at the diverse effects that these reforms had with respect to commercial banks, by examining important policy changes, considering how they affected institutional performance and shift in customer satisfaction, as well as finding systemic improvements, and operational challenges.

The results suggest that reforms such as those related to implementation of Basel III, consolidation of public sector banks, digital transformation, or stepped-up regulatory oversight through stuff like PCA have all worked together to make banking more resilient, healthier and competitive. Commercial banks have recorded a positive increase in their Profitability Ratios such as Return on Assets (ROA) and Net Interest Margins (NIM) etc, as well as improvement in CAR and decrease in the Non-Performing Assets. It's all evidence of a more resilient risk management model and better financial health in the sector."

Positive change has also emerged in customer service because of reforms focused on digitisation and standards of service. Improved access to banking through digital means has surpassed customer satisfaction and increased confidence in formal finance. Yet it’s clear that the rapid rise of new tech brought with it some short-term friction, especially for consumers who are not accustomed to using digital tools, making it important to have inclusive strategies that span digital divides.

Systematically the reforms have increased the stability of the banking sector. Mitigating risks, improving provisioning norms and the process of consolidation has helped create stronger, more resilient institutions that are better able to withstand macroeconomic shocks. However reform has not been without its challenges. Banks, especially of the public sector, have encountered challenges in terms of high cost of compliance, challenges in implementation of technology and human resource displacement post-mergers and organization restructuring.

The importance of a balanced and staged approach to the introduction of reforms is emphasised in the review. Regulatory reforms are essential to ensuring economic stability, but must be balanced with support for banks as they adjust operationally and technologically. In addition, customer education, cyber improvements and employee training are essential building blocks that should be included within reform agendas to create lasting and impactful change.

In sum, banking reforms have, overall, delivered on their aims for performance improvement, innovation support and system resilience. "But ongoing monitoring and adaptive policymaking are also necessary to meet new challenges and to ensure the reform pays off as a level playing field for all the stakeholders in the financial system." Future reforms need to be proactive instead of reactive, considering the dynamic of technology, regulation, and market behaviour in a rapidly changing international financial environment.

REFERENCES

1. Allen, F., & Gale, D. (2000). Comparing Financial Systems. MIT Press.
2. Barth, J. R., Caprio, G., & Levine, R. (2004). Bank Regulation and Supervision: What Works Best? Journal of Financial Intermediation, 13(2), 205–248.
3. Barth, J. R., Caprio, G., & Levine, R. (2004). Bank regulation and supervision: what works best? *Journal of Financial Intermediation*, 13(2), 205–248.
4. Berger, A. N., & Mester, L. J. (1997). Inside the Black Box: What Explains Differences in the Efficiency of Financial Institutions? Journal of Banking & Finance, 21(7), 895-947.
5. BIS (Bank for International Settlements). (2011). Basel III: A global regulatory framework for more resilient banks and banking systems.
6. Claessens, S., & Laeven, L. (2004). What Drives Bank Competition? Some International Evidence. Journal of Money, Credit and Banking, 36(3), 563-583.
7. Claessens, S., & Laeven, L. (2005). Financial dependence, banking sector competition, and economic growth. *Journal of the European Economic Association*, 3(1), 179–207.
8. Demirgüç-Kunt, A., & Detragiache, E. (1998). The determinants of banking crises in developing and developed countries. *IMF Staff Papers*, 45(1), 81–109.
9. Demirgüç-Kunt, A., & Levine, R. (2008). Finance, Financial Sector Policies, and Long-Run Growth. World Bank Policy Research Working Paper No. 4469.
10. Diamond, D. W., & Rajan, R. G. (2001). Liquidity Risk, Liquidity Creation, and Financial Fragility: A Theory of Banking. Journal of Political Economy, 109(2), 287-327.
11. Frame, W. S., & White, L. J. (2004). Empirical Studies of Financial Innovation: Lots of Talk, Little Action? Journal of Economic Literature, 42(1), 116-144.
12. Gomber, P., Koch, J. A., & Siering, M. (2017). Digital Finance and FinTech: current research and future research directions. *Journal of Business Economics*, 87(5), 537–580.
13. Gorton, G., & Winton, A. (2003). Financial Intermediation. Handbook of the Economics of Finance, 1, 431-552.
14. Hellmann, T. F., Murdock, K. C., & Stiglitz, J. E. (2000). Liberalization, Moral Hazard in Banking, and Prudential Regulation: Are Capital Requirements Enough? American Economic Review, 90(1), 147-165.
15. Jayaraman, K., & Sharma, P. K. (2004). Banking Reforms and Efficiency of Public Sector Banks. Economic and Political Weekly, 39(34), 3833-3839.
16. Kashyap, A. K., Rajan, R., & Stein, J. C. (2002). Banks as Liquidity Providers: An Explanation for the Coexistence of Lending and Deposit-Taking. Journal of Finance, 57(1), 33-73.
17. Laeven, L., & Levine, R. (2009). Bank Governance, Regulation and Risk Taking. Journal of Financial Economics, 93(2), 259-275.

18. Laeven, L., Ratnovski, L., & Tong, H. (2015). Bank size and systemic risk. *IMF Staff Discussion Note*.
19. Levine, R. (1997). Financial Development and Economic Growth: Views and Agenda. Journal of Economic Literature, 35(2), 688-726.
20. Mian, A., & Sufi, A. (2014). What Explains the 2007-2009 Drop in Employment? Econometrica, 82(6), 2197-2223.
21. Mishkin, F. S. (1999). Financial Consolidation: Dangers and Opportunities. Journal of Banking & Finance, 23(2-4), 675-691.
22. Mohan, R. (2005). Financial sector reforms in India: Policies and performance analysis. *Economic and Political Weekly*, 40(12), 1106–1121.
23. Nakamura, M., & Nakamura, T. (2003). The Effects of Banking Deregulation on the Number of Bank Branches in Japan. Journal of Banking & Finance, 27(8), 1391-1402.
24. North, D. C. (1990). Institutions, Institutional Change and Economic Performance. Cambridge University Press.
25. Rajan, R. G., & Zingales, L. (1998). Financial Dependence and Growth. American Economic Review, 88(3), 559-586.
26. Reddy, Y. V. (2002). Public sector banks and the governance challenge: Indian experience. *Speech at Bank Economists' Conference*.

Acknowledgments
The author(s) appreciates all those who participated in the study and helped to facilitate the research process.

Conflict of Interest
The author declared no conflict of interest.

How to cite this article: Soumya R & Padmavathi S M (2025). Banking Reforms and Their Commercial Impact. *International Journal of Social Impact, 10*(2), 373-382. DIP: 18.02.036/20251002, DOI: 10.25215/2455/1002036