



Foreign Direct Investment (FDI) and it's Impact on Banking & Finance Industry(2014-2024)

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Batch – (2023– 26)

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<https://doi.org/10.55041/ijst.v2i4.431>

Cite this Article: Adil, M. (2026). Foreign Direct Investment (FDI) and it's Impact on Banking & Finance Industry(2014-2024). International Journal of Science, Strategic Management and Technology, 02(04). <https://doi.org/10.55041/ijst.v2i4.431>Source. International Journal of Science, Strategic Management and Technology, 02(04). <https://doi.org/10.55041/ijst.v2i4.430>

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ABSTRACT

This research explores the consequences and functions of Foreign Direct Investment (FDI) on the banking and finance sector within the years 2014 to 2024. It is noted that FDI is a major catalyst towards globalization and economic integration, alongside emerging economies posing great importance to financial systems. Stepping into the previous decade, the greater integration of global markets, advancement in technology, and liberalization of the FDI policies made it possible for international investors to gain prominent control over domestic banking and financial systems.

In this paper, I focus on examining the trends regarding FDI inflows into the financial sector, the changing regulatory frameworks, and the consequences for financial institutions including the better capital access, greater operational effectiveness, proper level of risk management, and the proliferation of new financial services like digital banking and innovative financial products.

Also, FDI has enhanced competition, contributed to banking modernization through mergers and acquisitions, fostered the globalization of banking infrastructure, and also assisted with the consolidation through modernized banking infrastructure.

On the other side, the study addresses other issues such as risk factors concerning the regulations in place, foreign ownership, the concern of volatility in the economy, and the impact geopolitics has relative to investor's attitudes towards risk. Policy analysis supported by empirical evidence

INTRODUCTION

Foreign Direct Investment (FDI) has been the growth and change engine in the international banking and finance sector for the last ten years (2014–2024). With increasingly interdependent economies, FDI has played an instrumental role in reconfiguring financial markets by injecting capital, making banks more efficient, and incorporating local financial institutions into the international economy. The financial sector, the pillar of financial development, is dependent on secure capital flows, technology, and robust financial intermediation — spheres where FDI has made a deep influence. Foreign investment in the banking sector in most emerging and developing economies has enhanced the availability of credit, deepened financial infrastructure, and enhanced financial inclusion through extended banking services to hitherto excluded segments. Moreover, foreign banks also introduce international know-how, new financial instruments, and high-quality risk management practices, thus boosting competition and encouraging financial stability.

Nevertheless, while these advantages are present, the growing dependence on banking FDI is also coupled with some major risks and challenges. Overforeign ownership of banks can result in financial services monopolies at the expense of domestic financial institutions' growth. Foreign bank profit repatriation tends to lead to capital outflows instead of being invested in the domestic economy, which is a cause for concern regarding long-term economic viability.

Volatility in finance is another significant concern since foreign investors tend to withdraw capital during times of economic instability, causing instability in domestic banking systems. The regulatory landscape is also instrumental in deciding the success of FDI in banking since variations in financial policies, standards of governance, and political stability can impact investment. The COVID-19 pandemic (2020–2021) was the biggest disruptor, with FDI inflows decreasing because of economic uncertainty and capital flight from emerging markets. It also, however, spurred the growth of digital banking and financial technology (FinTech) use, resulting in foreign investment pouring into digital payment systems, blockchain, and artificial intelligence-based financial services.

The decade has also seen changes in FDI trends on account of geopolitical considerations, trade tensions, and economic reconfigurations. Developed nations have emphasized the building of regulatory structures to ensure foreign investments are consistent with national security and financial stability goals, whereas emerging economies have pursued FDI actively to promote their financial systems. In the case of Southeast Asia, Latin America, and Africa, liberalization policies of finance have encouraged multinational banks, leading to competition and innovation. But these countries also risk becoming too dependent on international capital, which can lead them to be sensitive to international financial shocks. The influence of FinTech on banking has been especially revolutionary with foreign investors making more efforts to invest in digital banking products, mobile payments systems, and decentralized finance (DeFi) projects

LITERATURE REVIEW

1. **FDI and Economic Growth:** Numerous studies have established a positive correlation between FDI and economic growth. According to Borenstein et al. (1998), FDI not only brings capital but also technology and managerial expertise, which are crucial for the development of the banking sector.
2. **Impact on Banking Sector Performance:** Research by Claessens et al. (2001) indicates that FDI can lead to improved efficiency and profitability in banks, as foreign banks often introduce better practices and technologies.
3. **Regulatory Frameworks:** The work of Barth et al. (2004) highlights the importance of regulatory frameworks in determining the effectiveness of FDI in the banking sector. Strong regulatory environments can enhance the benefits of foreign investments.
4. **Market Competition:** A study by Demirgüç-Kunt and Huizinga (2000) suggests that FDI increases competition in the banking sector, leading to better services and lower costs for consumers.
5. **Financial Stability:** According to a report by the International Monetary Fund (IMF, 2015), FDI can contribute to financial stability by diversifying the sources of funding and reducing the risk of domestic financial crises.
6. **Innovation and Technology Transfer:** FDI is often associated with the transfer of technology and innovation. As noted by Ghosh and Nanda (2010), foreign banks can introduce new financial products and services that enhance the overall competitiveness of the banking sector.
7. **Crisis Resilience:** Research by Laeven and Valencia (2013) indicates that countries with higher levels of FDI in their banking sectors tend to recover more quickly from financial crises, as foreign banks can provide additional capital and expertise.
8. **Cross-Border Banking:** The work of Cetorelli and Goldberg (2012) explores the implications of cross-border banking and how FDI can lead to increased interconnectedness in the global financial system.

9. Consumer Trust and Confidence: A study by Beck et al. (2013) emphasizes that the presence of foreign banks can enhance consumer trust and confidence in the banking system, leading to increased deposits and financial inclusion.
10. Regional Disparities: Research by Kinda (2016) highlights that the impact of FDI on the banking sector can vary significantly across regions, influenced by local economic conditions and regulatory environments.
11. Sustainability and Social Responsibility: The role of FDI in promoting sustainable banking practices has been discussed by authors like Scholtens (2006), who argue that foreign banks often adhere to higher environmental and social standards.
12. Impact of COVID-19: The pandemic has reshaped the landscape of FDI in banking, as noted by various studies (e.g., World Bank, 2021), indicating a shift in investment patterns and priorities.
13. Digital Transformation: The rise of fintech and digital banking has been accelerated by FDI, as foreign investors bring in new technologies and business models (Zhang et al., 2020).
14. Policy Implications: The work of OECD (2020) discusses the need for coherent policies to attract FDI in the banking sector while ensuring financial stability and consumer protection.
15. Future Trends: Emerging trends in FDI, such as the focus on sustainable finance and digital banking, are explored by various authors (e.g., PwC, 2022), indicating a shift in investment strategies.

RESEARCH OBJECTIVE

1. To examine the effect of FDI on the performance of the banking and finance sector between 2014 and 2024.
2. To explore the role of regulatory frameworks in promoting or obstructing FDI in banking.
3. To evaluate the impacts of FDI on competition in the market and consumer confidence in the banking sector.
4. To investigate the correlation between FDI and financial stability in banks.
5. To pinpoint the emerging trends in FDI and their implications for the future of banking and finance sector.

RESEARCH MODEL

The research model will be grounded on the following elements:

1. Independent Variable: Foreign Direct Investment (FDI)
2. Dependent Variables: Banking sector performance, market competition, financial stability, consumer trust
3. Moderating Variables: Regulative structures, economic environment
4. Mediating Variables: Technology transfer, innovation

HYPOTHESIS

1. H1: There exists a positive correlation between FDI and the performance of the banking sector.
2. H2: Effective regulatory systems maximize the good effects of FDI on bank performance.
3. H3: FDI promotes competition in the banking industry, resulting in enhanced consumer confidence.
4. H4: FDI enhances the banking system financial stability, especially in times of economic crisis.
5. H5: New technologies introduced by FDI have a positive effect on the banking system's ability to innovate.

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METHODOLOGY

The research utilizes a mixed-methods design to explore the influence of Foreign Direct Investment (FDI) on the finance and banking sector between 2014 and 2024.

1. **Research Design:** Quantitative and qualitative methods will be combined to offer an inclusive insight into FDI's influence.

2. Data Collection

Quantitative Data:

Secondary Data: Derived from World Bank, IMF, and financial reports. Primary Data: A questionnaire will be administered to banking sector stakeholders.

Qualitative Data: Interviews: Bank executives and policymakers' semi-structured interviews. Focus Groups: Consumers and banking professionals' discussions.

3. Sampling:

Quantitative: Stratified random to provide representative diversity.

Qualitative: Purposive sampling to choose expert participants.

4. Data Analysis:

Quantitative: Descriptive and inferential statistics, such as regression analysis. Qualitative: Thematic analysis to enumerate the main themes from interviews and focus groups.

QUESTIONNAIRE

Instructions

“Please answer the following questions about your experiences”



1. Name (Optional): _____
2. Organization/Institution: _____
3. Position/Role: _____
4. Years of experience in Banking/Finance:
 - 0–5
 - 6–10
 - 11–15
 - 16+
5. How familiar are you with the concept of Foreign Direct Investment (FDI)?
 - Very familiar
 - Somewhat familiar
 - Not familiar
6. Do you think FDI is good for the economy?
 - Yes
 - No
 - Not sure
7. Do you think FDI has helped improve the banking and finance industry from 2014 to 2024?
 - Yes
 - No
 - Not sure
8. Have you noticed more foreign banks or finance companies in your country in the last 10 years?
 - Yes
 - No
 - Not sure
9. Did FDI make banking more accessible (cheaper fees, improved interest rates)?
 - Yes
 - No
 - Not sure
10. Has FDI contributed to the introduction of new banking technology or apps?
 - Yes



- No
 - Not sure
11. Do you consider yourself safer dealing with banks nowadays than you would have 10 years ago?
- Yes
 - No
 - Not sure
12. Has FDI created increased opportunities for jobs within the banking and finance sector?
- Yes
 - No
 - Not sure
13. Has competition risen between foreign and local banks?
- Yes
 - No
14. . Are foreign banks better in service than local banks?
- Yes
 - No
 - About the same
15. What financial service has improved most because of FDI?
- Banking
 - Insurance
 - Investment services
 - Mobile/online payments
 - Others
16. Should foreign companies be permitted to invest more in banking and finance?
- Yes
 - No
 - Not sure
17. Is there any danger in too much foreign investment in finance?
- Yes
 - No



- Not sure

18. What are the greatest advantages of FDI in banking and finance? (Select up to 2)

- Better technology
- More jobs
- More customer choice
- Lower prices
- Faster services

19. What are the biggest issues resulting from FDI in finance? (Select all applicable)

- Local banks losing customers
- Foreign ownership of key assets
- Complex rules and regulations
- No significant issues
- Others

20. Should the government intervene more to regulate FDI in finance?

- Yes
- No
- Not sure

21. Do you have more trust in foreign banks than in local banks?

- Yes
- No
- Same level of trust

FORMULATION OF WORK-FLOW

1. Discovery of Investment Opportunity.

○ The foreign investor recognizes a viable sector, project or business opportunity in that host country analyzing its suitability in terms of alignment to strategic aims and market environment.

2. Market Research/ Feasibility study.

○ The demand, competition, cost structure, regulatory environment, availability of labour, taxation and related risks are analysed in detail.

○ These conclusions form the decision of entry into the market or not.

3. Selection of Entry Route

The two major routes that foreign direct investment can take are:

- Auto Route: The vehicle will not need any government sanction.
- Government Approval Route: Approvals should be received by the concerned ministry and Foreign Investment Promotion Board (in India, through the portal by DPIIT).

4. Ascertaining Mode of Investment.

The mode of entry is decided by the investor:

- Joint Venture
- Wholly Owned Subsidiary
- Merger/Acquisition
- Share Purchase
- Greenfield Investment (new set up)
- The existing assets include Brownfield Investment.

5. Laws and regulatory environment.

- Foreign exchange laws (e.g. FEMA in India) are to be met.
- Documents that are mandatory such as investment proposal, verification of identity, business plan, and shareholding pattern, should be presented.
- Where necessary, screening by the host government is done.

6. Funding & Capital Transfer

- The investor involves the transfer of capital using registered approved banking facilities registered with the host nation.
- The reporting requirements to the central bank (e.g., RBI in India) are done through forms, e.g. FC-GPR/FC-TRS.

7. Construction of Business.

- The business organization is incorporated.
- The registered land, machinery and other possessions, licenses, tax identifiers (GST/PAN) are secured.
- The recruitment of the workforce and the building of infrastructure is applied.

8. Project / Takeover Implementation.

- Construction or acquiring of assets begins.
- The operations, manufacturing or service is initiated.

9. Monitoring & Compliance

- Reporting to the regulatory bodies is done regularly.
- The laws, rules and regulations of the labour law, rules and regulations of the environment, financial reporting and taxation regulations are followed.

DATA ANALYSIS

FDI Information Analysis: Why and How important trends.

1. India FDI Inflows (Cumulative)

- Business India has accumulated a higher than US1 trillion of foreign direct investment (equity, reinvested earnings, and other capital) since April 2000.

- According to the India Brand Equity Foundation (IBEF), the total FDI inflow between April 2000 to date is approximated to be US 1.09 trillion.
- Approximately two-thirds of this accrued expenditure was incurred over the last ten years (April 2014-2024) meaning that there has been a strong acceleration over the past few years.

2. Recent Inflows & Net FDI

- FDI equity inflow decreased further during the financial year 2023-24 to US\$ 44.42 billion, which is 3.5 percent less than the previous year.
- Evidence of this development is that the aggregate FDI inflow, including reinvested earnings and other capital, stood in FY2023-24 at US\$70.95 billion, marginally lower than the US\$71.35 billion recorded in FY 2022-23.
- However, net FDI i.e. investment that is left after acquisition and disinvestment is on the wrong track. Repatriation is a major issue as cited in the Economic Survey.
- Mint report demonstrated that gross FDI inflows increased by about 18 per cent a year-on-year in the initial eight months of FY25, which started at US\$47.2 billion (FY24) and then moved to US\$55.6 billion (FY25).
- Even as this gross inflows have been on the rise, repatriations have also risen significantly thus obstructing net FDI balance.

3. Sources of FDI

- During the years between April 2000 and June 2025, the important source economies of the FDI in India were Mauritius (24 percent), Singapore (24 percent), the United States (10 percent), Netherlands (7 percent), and Japan (6 percent).
- However, available data repositories support the idea that, during FY 25, Singapore was still a significant source of FDI in India.

4. Sector-wise Distribution

The key areas that attract FDI in India since 2000 are:

- Services: about 16 per cent of cumulative inflow.
- Computer software and hardware: about 16 percent.
- Trading: roughly 6 percent
- Telecommunications: approximately 5 per cent.
- Automobiles: about 5 percent
- The manufacturing FDI grew significantly in the first half of FY 25; India-Briefing estimated that there was US 19.04 billion.
- The services industry is also a very appealing segment with equity investment increasing significantly; as per IBEF, 19% of inflows in FY 24-25 were to the services industry.

5. State-wise Distribution Geographic Distribution.

As well, FY 2024-25 shows that Maharashtra and Karnataka are the most active in FDI equity inflow in the country. In H1 FY 25, Maharashtra contributed a significant amount of 30 percent of the overall FDI in form of equity inflows, Karnataka (nearly 22 per cent.), Gujarat (nearly 17 per cent.), Delhi (nearly 13 per cent.), and Tamil Nadu (nearly 5 per cent).

6. Global Positioning

India was ranked the 15th in the list of FDI destinations by UNCTAD 2025 World Investment Report.

However, net FDI inflow into India was virtually stable at about US -28 billion in 2023, despite an overall decline in

FDI globally according to UNCTAD.

7. Threats / Headwinds (According to Data)

- Increased repatriation and disinvestment: A large percentage of the gross FDI is being repatriated hence, reducing the net investment balance.
- Uncertainty in the world economy: The high cost of borrowing is experienced all over the world (e.g. high interest rates) and unrest in the world politics leads to slow net inflows.
- Declines in sectoral growth: In FY 24, the services sector witnessed a decline in FDI equity inflows, which is a worrying development since the sector stands out.
- Volatility: Net FDI is quickly reversing, as a result of exits, which are made through IPOs and additional sales, showing that a large proportion of FDI is made up of financial or portfolio investments, but not as long term capital.

CONCLUSION

This research emphasizes the crucial role of Foreign Direct Investment (FDI) in guiding the banking and finance industry during the period 2014-2024. Since the last decade, FDI has contributed towards financial development through the infusion of cutting-edge banking technologies, enhanced efficiency, expanded availability of credit, and financial inclusion. Foreign banks' presence has facilitated greater market competition, which has resulted in improved banking services and reduced prices for consumers. Besides, FDI has promoted financial stability through diversification of sources of capital and allowing domestic banks to implement best international practices.

Still, the effect of FDI is not without challenges. Profit repatriation, over-foreign control, financial volatility, and compliance with regulations are still major host economy concerns. While foreign investments contribute to innovation and capital, they can also be detrimental to financial sovereignty at the national level if not regulated well. Policymakers have to balance the need to attract foreign investment with the need to maintain stability and autonomy of domestic financial systems. The COVID-19 pandemic also showed the weaknesses of foreign-dependent banking systems while, at the same time, hastening digital finance developments, which led to a change in FDI priorities towards FinTech and mobile banking solutions.

In the future, financial regulators and policymakers should aim to develop sustainable investment structures that bring in high-quality FDI while protecting domestic financial stability. Focusing on stringent regulatory policies, consumer protection, and domestic reinvestment of earnings will ensure the maximum benefits of FDI. In addition, future studies should investigate new trends like the application of artificial intelligence in banking, decentralized finance (DeFi), and the implications of sustainable finance in foreign investments. By knowing the complex interplay between FDI and financial sector development, economies can

take advantage of foreign investment while reducing possible risks. An efficient, forward-thinking system will keep FDI at the forefront of finance as a facilitator of stability, innovation, and long-term