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CHALLENGES AND OPPORTUNITIES IN INDIAN BANKING SECTOR: A SELECTIVE STUDY

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Abstract:

The financial changes started by the Government of India around two decades prior have changed the scene of a few parts of the Indian economy. The Indian managing an account division is no special case. This segment is experiencing real changes as an outcome of financial changes. The part of keeping money industry is extremely imperative as one of the main and for the most part basic administration area. India is the biggest economy on the planet having in excess of 120 crore populace. Today in India the administration segment is contributing portion of the Indian GDP what's more, the keeping money is most mainstream benefit segment in India. The critical part of managing an account industry is basic to accelerate the social financial improvement. Banks assumes a vital part in the monetary improvement of creating nations. Financial advancement includes interest in different areas of the economy. The financial changes have additionally produced new and intense clients (immense Indian white collar class) also, new blend of players (open part units, private banks, and outside banks). The developing rivalry has created new desires from the current and the new clients. There is a dire need to present new items. Existing items should be conveyed in a creative and financially savvy path by taking full favorable position of rising innovations. The greatest open door for the Indian keeping money framework today is the Indian customer. Statistic moves regarding salary levels and social moves as far as way of life yearnings are evolving the profile of the Indian shopper. The Indian purchaser now tries to satisfy his way of life desires at a more youthful age with an ideal blend of value and obligation to fund utilization and resource creation. This is prompting a developing interest for aggressive, refined retail saving money administrations. This paper clarifies the changing keeping money situation, the effect of monetary changes and investigations the difficulties and chances of national and business banks.

Key Words: Retail Banking, Technology in Banking, Public and Private Sector Banks, Foreign Banks, Rural Credit & Microfinance.

Introduction:

India is one of the best 10 economies on the planet, where the managing an account segment can possibly develop. The most recent decade saw clients grasping ATM, web and versatile managing an account. India's keeping money area is as of now esteemed at Rs. 81 trillion (US$ 1.31 trillion). It can possibly turn into the fifth biggest managing an account industry on the planet by 2020 and the third biggest by 2025, as per an industry report. The substance of Indian keeping money has changed throughout the years. Banks are currently connecting with the majority with innovation to encourage more noteworthy simplicity of correspondence, and exchanges are helped out through the Internet and cell phones. A bank is a budgetary foundation that gives keeping money and other monetary administrations to their clients. A bank is for the most part comprehended as a foundation which gives principal keeping money administrations, for example, tolerating stores and giving credits. There are likewise nonbanking establishments that give certain keeping money administrations without meeting the lawful meaning of a bank. Banks are a subset of the money related administrations industry. A saving money framework likewise alluded as a framework gave by the bank which offers money administration administrations for clients, detailing the exchanges of their records and portfolios, for the duration of the day.

The keeping money framework in India ought be sans bother as well as it ought to have the capacity to meet the new challenges postured by the innovation and some other outer and inward factors. For as long as three decades, India's saving money framework has a few exceptional accomplishments shockingly. The Banks are the principle members of the budgetary framework in India. The Banking division offers a few offices and chances to their clients. Every one of the banks defends the cash and resources and gives advances, credit, and installment administrations, for example, financial records, cash requests, and clerk's checks. The banks additionally offer speculation and protection items. As an assortment of models for participation and coordination among back ventures have developed, a few of the customary refinements between banks, insurance agencies, and securities firms have decreased. In dislike of these progressions, banks proceed to keep up and play out their essential part tolerating stores and loaning stores from these stores.

Prior to the foundation of banks, the budgetary exercises were dealt with by cash loan specialists and people. Around then the loan costs were high. Again there were no security of open investment funds and no consistency with respect to credits. In order to conquer such issues the sorted out saving money area was set up, which was completely managed by the legislature. The sorted out saving money segment works inside the monetary framework to give advances, acknowledge stores and give different administrations to their clients. The accompanying elements of the bank clarify the need of the bank and its significance:

- ✓ To give the security to the investment funds of clients.
- ✓ To control the supply of cash and credit
- ✓ To support open trust in the working of the money related framework, increment investment funds rapidly and proficiently.
- ✓ To maintain a strategic distance from focal point of money related powers in the hands of a couple of people and foundations.
- ✓ To set equivalent standards and conditions (i.e. rate of intrigue, time of loaning and so on.) to a wide range of Customers.

Objectives:

The aim of this paper is to clarify the changing managing an account situation, to break down the effect of advancement, privatization and globalization and to examine the difficulties and chances of national and business banks in changing keeping money situation. What's more, an endeavor is made to comprehend the hugeness of banks in India.

Methodology:

This paper is the result of optional information on Indian Banking Sector with extraordinary reference to Indian setting. To finish this, yearly reports, different books, diaries and periodicals have been counseled, a few reports on this specific zone have been considered, and web looking has likewise been finished.

Evolution of the Indian Banking Industry:

The main bank in India, called The General Bank of India was built up in the year 1786. The East India Company set up The Bank of Bengal/Calcutta (1809), Bank of Bombay (1840) and Bank of Madras (1843). The following bank was Bank of Hindustan which was set up in 1870. These three individual units (Bank of Calcutta, Bank of Bombay, and Bank of Madras) were called as Presidency Banks. Allahabad Bank which was built up in 1865, was out of the blue totally keep running by Indians. Punjab National Bank Ltd. was set up in 1894 with base camp at Lahore. In the vicinity of 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up. In 1921, all administration banks were amalgamated to 22 frames the Imperial Bank of India which was controlled by European Shareholders. After that the Hold Bank of India was set up in April 1935.

At the season of first stage the development of managing an account area was moderate. In the vicinity of 1913 and 1948 there were around 1100 little banks in India. To streamline the working and exercises of business banks, the Government of India thought of the Banking Companies Act, 1949 which was later changed to Managing an account Regulation Act 1949 according to changing Act of 1965 (Act No.23 of 1965). Save Bank of India was vested with broad forces for the supervision of keeping money in India as a Central Banking Authority.

After freedom, Government has made most critical strides in respect of Indian Banking Sector changes. In 1955, the Imperial Bank of India was nationalized and was given the name "State Bank of India", to go about as the central operator of RBI and to deal with saving money exchanges everywhere throughout the nation. It was set up under State Bank of India Act, 1955. Seven banks shaping backup of State Bank of India was nationalized in 1960. On nineteenth July, 1969, noteworthy procedure of nationalization was done. In the meantime 14 noteworthy Indian business banks of the nation were nationalized. In 1980, another six banks were nationalized, and consequently raising the quantity of nationalized banks to 20. Seven more banks were nationalized with stores more than 200 crores. Till the year 1980 around 80% of the managing an account section in India was under government's possession. On the proposals of Narsimhan Committee, the Banking Regulation Act was corrected in 1993 and consequently the doors for the new private part banks were opened.

The accompanying are the real advances taken by the Government of India to Regulate Banking foundations in the nation:-

1949: Enactment of Banking Regulation Act.
1955: Nationalization of State Bank of India.
1959: Nationalization of SBI subsidiaries.
1961: Insurance cover extended to deposits.
1969: Nationalization of 14 major Banks.
1971: Creation of credit guarantee corporation.
1975: Creation of regional rural banks.
1980: Nationalization of seven banks with deposits over 200 Crores.

Phases of Evolution of Indian Banking Industry:

In the evolution of this strategic industry spanning over two centuries, immense developments have been made in terms of the regulations governing it, the ownership structure, products and services offered and the technology deployed. The entire evolution can be classified into four distinct phases.

- ✓ Phase I- Pre-Nationalization Phase (prior to 1955

- ✓ Phase II- Era of Nationalization and Consolidation (1955-1990)
- ✓ Phase III- Introduction of Indian Financial & Banking Sector Reforms and Partial Liberalization (1990-2004)
- ✓ Phase IV- Period of Increased Liberalization (2004 onwards)

Challenges and Opportunities:

The Indian banking sector continues to face some structural challenges. We have a relatively large number of banks, some of which are sub-optimal in size and scale of operations. On the regulatory front, alignment with global developments in banking supervision is a focus area for both regulators and banks. The new international capital norms require a high level of sophistication in risk management, information systems, and technology which would pose a challenge for many participants in the Indian banking sector. The deep and often painful process of restructuring in the Indian economy and Indian industry has resulted in asset quality issues for the banking sector; while significant progress is being made in this area, a great deal of work towards resolution of these legacy issues still needs to be done.

The Indian banking sector is thus at an exciting point in its evolution. The opportunities are immense – to enter new businesses and new markets, to develop new ways of working, to improve efficiency, and to deliver higher levels of customer service. The process of change and restructuring that must be undergone to capitalize on these opportunities poses a challenge for many banks. The Indian banking sector is faced with multiple and concurrent challenges such as increased competition, rising customer expectations, and diminishing customer loyalty. The banking industry is also changing at a phenomenal speed. While at the one end, we have millions of savers and investors who still do not use a bank, another segment continues to bank with a physical branch and at the other end of the spectrum, the customers are becoming familiar with ATMs, e-banking, and cashless economy. This shows the immense potential for market expansion. The exponential growth for the industry comes from being able to handle as wide a range of this spectrum as possible. In this complex and fast changing environment, the only sustainable competitive advantage is to give the customer an optimum blend of technology and traditional service. As banks develop their strategies for giving customers access to their accounts through various advanced services like e banking, mobile banking and net banking, they should also regard this emerging platform as a potential catalyst for generating operational efficiencies and as a vehicle for new revenue sources. Banking industry‘s opportunities includes

- ✓ A growing economy
- ✓ Banking deregulation
- ✓ Increased client borrowing
- ✓ An increase in the number of banks
- ✓ An increase in the money supply
- ✓ Low government-set credit rates and larger customer checking account balances.

Developing countries like India, has a huge number of people who don‘t have access to banking services due to scattered and fragmented locations. But if we talk about those people who are availing banking services, their expectations are raising as the level of services are increasing due to the emergence of Information Technology and immense competition between the services and products provided by different banks. Since, foreign banks are playing in Indian market, the number of services of offered has increased and banks have laid emphasis on meeting the customer expectations. India's banking sector has made rapid strides in reforming and aligning itself to the new competitive business environment. The major challenges faced by banks today are as to how to cope with competitive forces and strengthen their balance sheet. Today, banks are groaning with burden of NPA‘s. It is rightly felt that these contaminated debts, if not recovered, will eat into the very vitals of the banks.

Indian Consumer:

The biggest opportunity for the Indian banking system today is the Indian consumer. Demographic shifts in terms of income levels and cultural shifts in terms of lifestyle aspirations are changing the profile of the Indian consumer. This is and will be a key driver of economic growth going forward. The Indian consumer now seeks to fulfill his lifestyle aspirations at a younger age with an optimal combination of equity and debt to finance consumption and asset creation. This is leading to a growing demand for competitive, sophisticated retail banking services. The consumer represents a market for a wide range of products and services – he needs a mortgage to finance his house; an auto loan for his car; a credit card for on-going purchases; a bank account; a long-term investment plan to finance his child‘s higher education; a pension plan for his retirement; a life insurance policy – the possibilities are endless. And, this consumer does not live just in India‘s top ten cities. He is present across cities, towns, and villages as improving communications increases awareness even in small towns and rural areas. Consumer goods companies are already tapping this potential – it is for the banks to make the most of the opportunity to deliver solutions to this market.

Revolution of Information Technology:

Technology is the key to servicing all customer segments – offering convenience to the retail customer and operating efficiencies to corporate and government clients. The increasing sophistication, flexibility, and complexity of product and servicing offerings makes the effective use of technology critical for managing the risks associated with the business. Developing or acquiring the right technology, deploying it optimally, and then leveraging it to the maximum extent is essential to achieve and maintain high service and efficiency standards while remaining cost-effective and delivering sustainable returns to shareholders. Early adopters of technology acquire significant competitive advantage. Managing technology is, therefore, a key challenge for the Indian banking sector. Wide disparities exist between various banks as far as technology capabilities are concerned; the sector as a whole needs to make significant progress on this front.

Banks may have to go for mobile banking services for a cluster of villages. Alternatively, technological institutions have to come out with low-cost, self-service solutions/ ATMs. The government and the RBI should actively support such research efforts. Here, it is worthwhile to mention that the adaptability of the Indian rural population to high-tech devices is one of the fastest in the world. A wider dissemination of information on technologies and products to the Indian banking industry by the research institutions could benefit the banking institutions. This cross-pollination of ideas would mutually enrich the banking and the technology development processes. The Indian banks are subject to tremendous pressures to perform as otherwise their very survival would be at stake. The application of IT and e-banking is becoming the order of the day with the banking system heading towards virtual banking.

Industrial Development:

The developments in Indian industry and government and the integration of India with the global markets also offer innumerable opportunities to the banking sector. Companies and governments are increasingly seeking high-quality banking services to improve their own operating efficiency. Companies seek to offer better customer service and maximize shareholder returns and governments seek to improve the quality of public services. The internationalization of India offers banks the opportunity to service cross-border needs of Indian companies and India-linked needs of multinationals.

Knowledged Society:

Building knowledge-driven, learning organizations is important in the current scenario of rapidly evolving operating environments. Knowledge and assimilation of new ideas and trends are essential to keep the organization ahead on the curve. This is true for banking as it is for all other sectors. Banks must continuously seek to be aware of cutting edge practices in banking internationally and institutionalize this learning across the organization. This will prepare them for the future as Indian markets become more sophisticated and integrated into the global financial markets. Another critical area for the Indian banking sector is people. The ability to attract and retain talent is a key success factor for a people-oriented business like banking. Banks have to build organizations that are process driven yet innovative, stable yet flexible, and responsive to change.

Intense Competition:

The RBI and Government of India kept banking industry open for the participants of private sector banks and foreign banks. The foreign banks were also permitted to set up shop on India either as branches or as subsidiaries. Due to this lowered entry barriers many new players have entered the market such as private banks, foreign banks, nonbanking finance companies, etc. The foreign banks and new private sector banks have spearhead the hi-tech revolution. For survival and growth in highly competitive environment banks have to follow the prompt and efficient customer service, which calls for appropriate customer centric policies and customer friendly procedures

Employees’ Retention:

The banking industry has transformed rapidly in the last ten years, shifting from transactional and customer service-oriented to an increasingly aggressive environment, where competition for revenue is on top priority. Long-time banking employees are becoming disenchanted with the industry and are often resistant to perform up to new expectations. The diminishing employee morale results in decreased revenue. Due to the intrinsically close ties between staff and clients, losing those employees completely can mean the loss of valuable customer relationships. There tail banking industry is concerned about employee retention from all levels: from tellers to executives to customer service representatives because competition is always moving in to hire them away.

Financial Inclusion:

Financial inclusion has become a necessity in today‘s business environment. Whatever is produced by business houses that have to be under the check from various perspectives like environmental concerns, corporate governance, social and ethical issues? Apart from it to bridge the gap between rich and poor, the poor people of the country should be given proper attention to improve their economic condition. In India, RBI has initiated several measures to achieve greater financial inclusion, such as facilitating no-frills accounts and GCCs for small deposits and credit.

Rural Market:

Banking in India is generally fairly mature in terms of supply, product range and reach, even though reach in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region. Consequently, we have seen some examples of inorganic growth strategy adopted by some nationalized and private sector banks to face upcoming challenges in banking industry of India. For example recently, ICICI Bank Ltd. merged the Bank of Rajasthan Ltd. in order to increase its reach in rural market and market share significantly. State Bank of India (SBI), the largest public sector bank in India has also adopted the same strategy to retain its position. It is in the process of acquiring its associates. Recently, SBI has merged State Bank of Indore in 2010.

High Transaction Cost:

A major concern before the banking industry is the high transaction cost of carrying non- performing assets in their books. The growth led to strains in the operational efficiency of banks and the accumulation of non-performing assets (NPA‘s) in their loan portfolios.

Social and Ethical Aspects:

There are some banks, which proactively undertake the responsibility to bear the social and ethical aspects of banking. This is a challenge for commercial banks to consider these aspects in their working. Apart from profit maximization, commercial banks are supposed to support those organizations, which have some social concerns.

Timely Technological Up Gradation:

Already electronic transfers, clearings, settlements have reduced translation times. To face competition it is necessary for banks to absorb the technology and upgrade their services.

Global Banking:

The impact of globalization becomes challenges for the domestic enterprises as they are bound to compete with global players. If we look at the Indian Banking Industry, then we find that there are 36 foreign banks operating in India, which becomes a major challenge for Nationalized and private sector banks.

Conclusion:

The pre and post liberalization era has witnessed various environmental changes which directly affects the aforesaid phenomena. It is evident that post liberalization era has spread new colors of growth in India, but simultaneously it has also posed some challenges. This article discusses the various challenges and opportunities like High transaction costs, IT revolution, timely technological up-gradation, intense competition, privacy & safety, global banking, financial inclusion. Banks are striving to combat the competition. The competition from global banks and technological innovation has compelled the banks to rethink their policies and strategies. Different products provided by foreign banks to Indian customers have forced the Indian banks to diversity and upgrade themselves so as to compete and survive in the market. The biggest challenge for banking industry is to serve the mass and huge market of India. Companies have become customer centric than product centric. The better we understand our customers, the more successful we will be in meeting their needs. In order to mitigate above mentioned challenges Indian banks must cut their cost of their services. Another aspect to encounter the challenges is product differentiation. Apart from traditional banking services, Indian banks must adopt some product innovation so that they can compete in gamut of competition. Technology up gradation is an inevitable aspect to face challenges. The level of consumer awareness is significantly higher as compared to previous years. Now-a-days they need internet banking, mobile banking and ATM services.

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