Banking Industry in India: Issues and Challenges (A Conceptual study)

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Abstract

Banking sector is treated as to be the back bone of the Indian economy. The task of banking industry is particularly vital as one of the leading and mostly essential service sector The Indian banking industry is going through turbulent times. A decade of economic and financial sector reforms has strengthened the fundamentals of the Indian economy and transformed the operating environment for banks and financial institutions in the country. The banking industry, being very competitive, not only focuses on providing wide product lines to create competitive advantages, but also emphasizes the importance of its services, particularly in maintaining service quality. For the first time in the last five decades, quality has become the key slogan in Indian organizations as they strive for a competitive advantage in an atmosphere characterised by liberlisation, globilisation and knowledgeable customers. Satisfaction is a crucial concern for both customers and organizations including banks. Lot of efforts is being made by banks to offer high quality products and services to their customers. The banking industry like any other financial services is facing a rapidly changing market, new technologies, uncertainties, fierce competition and more demanding customers and the changing climate has presented an unprecedented set of challenges. Banking is a customer oriented service industry, therefore the customer is the focus and customer service is the differentiating factor. Thus, in order to survive in the competitive scenario, Public Sector Banks are in a position to satisfy their customer wants.

Keywords: Banking Industry, Customer satisfaction, Competitive advantage, Quality service.

Introduction:

Today's Customers are deeply concerned about having a high quality experience in Banking. They expect atmosphere and entertainment and prefer banks with a personality rather than those perceived as offering a commodity. Quality of service is becoming an increasingly important differentiator between competing businesses in the Banking sector.

Service Quality evaluation is a highly complex process that may operate at several levels of abstraction which makes conceptualization and measurement of service quality a real difficult task. With increasing competition, service quality has been a popular area of academic investigation and has recognized as a key factor in keeping competitive advantage and sustaining satisfying relationship with customers especially in dynamic banking sector. These aspects highly motivated the researcher to take up the present study.

Research Methodology

The study is based on the secondary data.

Objectives

- To examine the Banking reforms and competition in the present scenario.

- To find out the Banking industry Challenges and provide solutions.

Banking Sector Reforms

Since 1991, the Indian financial system has undergone radical transformation. Reforms have altered the organizational structure, ownership pattern and domain of operations of banks, financial institutions and Non-banking Financial Companies (NBFCs). The main thrust of reforms in the financial sector was the creation of efficient and stable financial institutions and markets. Reforms in the banking and nonbanking sectors focused on creating a deregulated environment, strengthening ensuring the prudential norms and the supervisory system, changing the ownership pattern and increasing competition. Narasimham Committee Report on Banking Sector Reforms. The committee on Financial system (CFS), popularly known as Narasimhan committee was set up in 1991, to recommend for bringing about necessary reforms in financial sector. The committee submitted its report to the then Finance Minister on April 23, 1998. The main objective of the Banking Sector Reforms Committee was to establish a strong, efficient and profitable banking system of the global standard.

The reform measures have brought about sweeping changes in this critical sector of the Indian's economy. Performance of the banking sector has impact across the length and breadth of the economy. The major banking sector reforms comprises of modifying the policy framework; improving the financial soundness and credibility of banks; creating a competitive

environment, and strengthening of the institutional framework. The banking sector reform measures to enhance efficiency and productivity through competition were initiated and sequenced to create an enabling environment for banks to overcome the external constraints which were related to administered structure of interest rates, high levels of pre-emption in the form of reserve requirements, and credit allocation to certain sectors. An attempt has been made in this paper to provide a brief overview on performance of the Banking Sector in India.

Global Competition

Competition is the life force of a modern economy – it replaces dated and inefficient methods while preserving valuable traditions; it rewards the innovative and energetic and punishes the merely connected; it destroys the stability of the status quo while giving hope to the young and the outsider. True competition eliminates the need to plan, for as gravity guides water through the shortest path, competition naturally guides the economy to the most productive route.

Competition in the banking sector in India is best seen as the product of two grand bargains. The first was between successive governments and the banks, whereby banks got privileged access to low cost demand and time deposits, to the central bank’s liquidity facilities, as well as some protection from competition, in return for accepting obligations such as financing the government (through the Statutory Liquidity Ratio or

SLR), helping in monetary transmission (through maintaining the Cash Reserve Ratio or CRR), opening branches in unbanked areas.

The second grand bargain was between the public sector banks (PSBs) and the government, whereby these banks undertook special services and risks for the government, and were compensated in part, by the government standing behind the public sector banks. As India has developed, both these bargains are coming under pressure. And it is development and competition that is breaking them down.

Freeing Public Sector Banks to compete

Let us turn next to the public sector banks. There are well-managed public sector banks across the world and even in India today. So privatization is not necessary to improve the competitiveness of the public sector. But a change in governance, management, and operational and compensation flexibility are almost surely needed in India to improve the functioning of most PSBs, as the Dr. P.J. Nayak Committee has just reiterated.

A number of eminently practicable suggestions have been made to reform PSBs, such as creating a holding company to hold government PSB shares, increasing the length of PSB CEO tenures, breaking up the position of Chairman and CEO, bringing more independent professionals on bank boards and empowering boards with the task of selecting the CEO, becoming more selective in cases that are followed up for vigilance investigations…

Challenges for Banking Sector in the Present competitive market

Asset Quality Deterioration

The asset quality deterioration continues with the farm loan waiver in certain states is creating a moral hazard issue. The RBI, too, is forcing banks to make provisions for stressed assets, which are not strictly NPAs today.

Low Credit Offtake

The credit offtake is still low at around 70 per cent. The public sector banks (PSBs) are anyway staying away from lending , while private sector banks are selectively offering refinancing to good corporate.

The new Bankruptcy Code

The biggest change came from the new bankruptcy code that provide for a faster resolution of stressed assets in a time bound manner. Bankers are hopeful of clearing the stock of bad debts with some gains in the books

Fintech working with banks

The FinTechs , which were considered as a threat to banks , are actually working very closely with banks. There are some which are providing business leads and the actually funding is taking place from the banks' balance sheets.

New payments and small finance banks

More and more new payments banks and small finance banks are launching their operations. These banks are catering to specific segments. In the longer run, these banks will achieve scale and size.

Retail story continues

The retail banking has been a savior for banking industry as the growth is in upwards of 18-20 per cent. In a way , retail banking is compensating for the lower growth on the corporate side. The retail story continues with housing being the largest segment for almost all.

New areas like consumer durable and micro finance

Some two decades ago, the retail banking spread from home loans to other unsecured loans in a big way. The new growth segments are now micro loans and consumer durable financing. Banks are developing these new businesses for future growth.

Use of bots and artificial intelligence

The adoption of AI and bots is gradually taking place in the banking industry. Some banks have launched software robotics to for repetitive call centre jobs. The adoption of AI is going to transform many of the segments of banks especially 'sales platform' and 'customer service.

Unhedged Forex exposure

"The wild gyrations in the forex market have the potential to inflict significant stress in the books of Indian companies who have heavily borrowed abroad," Mundra said in his speech. This stress can affect their ability to pay back debt to Indian banks. As a result, the RBI wants banks to ensure companies they lend to do not expose themselves to unnecessary debt in dollars.

Suggestions for better Performance

Your customer service employees are your front line. As such, they need to have the right resources to provide exceptional customer service. But many times they don’t. Far too many banks and credit unions are falling behind when it comes to providing their employees with the tools they need to most effectively do their job and that in turn not only affects customer service quality but employee morale as well.

Educate Your Customers on Financial Literacy

The concept of educating potential and current customers on financial literacy is not necessarily new. What is new is how banks and credit unions today are choosing to do it and whom they’re now targeting. While financial literacy programs such as *Operation HOPE and Junior Achievement*, have existed outside of banks for many years, targeting low income and youth populations, it is only recently that banks have recognized the value in bringing educational initiatives in-house.

Embrace Financial Technology

Banks and the financial sector as a whole catch up with advances in technology, they are finding great opportunities to improve their bottom line and increase customer satisfaction. Banking sector is using financial technologies to improve their businesses are through:

- Exploring advances in mobile payment options
- Using biometrics, such as voice identification and eye scanning, to increase security
- Integrating systems and converting old data to new formats
- Installing drive-through video teller devices
- Taking advantage of customer data and social media (that banks have but are not using to its full potential) to enhance bank marketing and geographically targeted customer offers

Become An Advisor, Not Just a Lender, For Small Businesses

Small businesses, post-recession, are looking for more than just a lender. They are looking for a business partner. Yet, many banks and credit unions have not figured out quite how to move beyond the traditional lender role they have played for so long. Recent study by *McKinsey & Co., American Banker said*, "Serving small-business customers more holistically is a goal that many community banks aspire to. But few are truly making a transition from the lender role to an adviser one, and there is a lot of revenue upside for those who do." By acting as an advisor to small business clients, banks gain an additional revenue stream through fee-based services.

Segment Your Client Base and Create Personalized Customer Experiences

With so much competition in the retail banking and credit union space, customers have choices. What's more, consumer trust fell after the recession began in 2008. For institutions that wish to stay competitive and build customer trust, personalization and segmentation of both messaging and services is crucial.

Stay Consistent Across Channels and Branches and at Every Touch Point

Providing consistent and accurate information across channels is a constant challenge for banks and credit unions. Yet, in today's technological world, with customers banking online, on their mobile devices and on tablets in addition to at branch locations, providing consistent information is becoming more and more crucial for institutions hoping to provide the best in banking customer service.

Create Real Customer Relationships

Creating relationships with customers and members is at the heart of a strong customer service strategy. It is crucially important to customer satisfaction and retention, but it is often easier said than done. In order to create strong customer relationships, banks and credit unions must:

- Build trust
- Be transparent
- Stay consistent and reliable

Test and Then Test Again

Just like no two customers are exactly alike, no two banks or credit unions are the same. What works for one bank and one customer segment may not work for another. The only way to know for sure what works in your bank or credit union is to test. And then test again. Testing things such as frequency, messaging and channel of communications; target markets for certain products; and special offers are just some of the very many areas possible for testing and honing.

Conclusion

The banking sector is on the cusp of revolutionary change. In the next few years, I hope we will see a much more varied set of banking institutions using information and technology to their fullest, a healthy public sector banking system, distant from government influence but not from the public purpose, and a deep and liquid financial markets that will not only compete with, but also support, the banks. Such a vision is not just a possibility; it is a necessity if we are to finance the enormous needs of the real economy. As India resumes its path to strong and sustainable growth, it is the RBI's firm conviction that the Indian banking sector will be a supportive partner every inch of the way.

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