Indian Banking Sector - Challenges and Opportunities

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Abstract: The economic reforms initiated by the Government of India about two decades ago have altered the landscape of numerous sectors of the Indian economy. The Indian banking sector is not exclusion. This sector is going throughout major challenges as a significance of economic reforms. The role of banking industry is very essential as one of the leading service sector. India as largest economy in the world has more than 125 crore population. Today, in India the service sector is causative half of the banking and Indian GDP is most popular service sector in India. The considerable position of banking industry is essential to speed up social economic development. Banks play a main role in the economic development of countries. Economic development includes speculation in various areas of the economy. The economic reforms have generated powerful and new customers (huge Indian middle class) and new mix of players (public sector units, private banks, and foreign banks). The promising competition has lead to emergence of new expectations from the original and existing customers. There is an imperative need to introduce innovative products. Existing products require to be delivered in a cost-effective and novel way by taking full benefit of budding technologies.. 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 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 paper explains the altering banking scenario, the collision of economic reforms and analyses the challenges and opportunities of state and commercial banks.

Keywords: E-Banking, Customer Retention, Economic Reforms, Information Technology, lifestyle, GDP, CRM

Introduction

The banking sector is the lifeline of any modern economy. It is one of the important pillars of the financial sector, which plays a vital role in the functioning of an economy. It is important for economic development of a country that it's financing requirements of trade; industry and agriculture are met with higher degree of assurance and accountability. Thus, the country's development is integrally linked with that of banking. For the, past three decades India's banking system had outstanding achievements to its credit. It is no longer confined to metropolitans or cosmopolitans in India. In fact, Indian banking system has reached even to the remote corners of the country. The objectives of this course are to make the members aware about the foremost reform measures and policies concerning the banking industry by the government of India and the RBI. Secondly, is to study the major impacts of those reforms upon the banking industry.

OBJECTIVE

The objective of this paper is to explain the changing banking picture, to assess the impact of liberalization, privatization & globalization (LPG) and to study the challenge and opportunities of commercial and national banks in changing banking scenario. In relation to this, attempts are made to understand the importance of banking in India.

Methodology

This paper is the outcome of a secondary data on Indian Banking Sector with particular reference to Indian context. To complete this, annual reports, various books, journals and periodicals have been consulted, several reports on this particular area have been considered, and internet surfing has also been done.

Analysis of the Indian Banking Sector

At the time of first phase the growth of banking sector was very slow. Between 1913 and 1948 there were approximately 1100 small banks in India. To streamline the functioning and activities of commercial banks, the Government of India came up with the Banking Companies Act, 1949 which was later changed to Banking Regulation Act 1949 as per amending Act of 1965 (Act No.23 of 1965). After independence, Government has taken most important steps in regard of Indian Banking Sector reforms. In 1955, the Imperial Bank of India was nationalized and was given the name "State Bank of India", to act as the principal agent of RBI and to handle banking transactions all over the country. It was established under State Bank of India Act, 1955. Seven banks forming subsidiary of State Bank of India was nationalized in 1960..Till the year 1980 approximately 80% of the banking segment in India was under government's ownership. Reserve Bank of India was vested with extensive powers for the supervision of banking in India as a Central Banking Authority. On 19th July, 1969, major process of nationalization was carried out. At the same time 14 major Indian commercial banks of the country were nationalized. In 1980, another six banks were nationalized, and thus raising the number of nationalized banks to 20. Seven more banks were nationalized with deposits over 200 crores.

On the suggestions of Narsimhan Committee, the Banking Regulation Act was amended in 1993 and thus the gates for the new private sector banks were opened. The subsequent are the major steps taken by the Government of India to Regulate Banking institutions in the country: - 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.

The major issues and Challenges Facing Banks and Financial Institutions

- **Not making enough money.** Despite all of the headlines about banking profitability, banks and financial institutions still are not making enough return on investment, or the return on equity, that shareholders require.
- **Consumer expectations.** These days it's all about the customer understanding, and many banks are feeling difficulty because they are not delivering the echelon of service that consumers are serious, especially in regards to technology.
- **Increasing competition from financial technology companies-** Financial technology (FinTech) companies are usually start-up companies based on using software to provide financial services. The increasing popularity of FinTech companies is disturbing the way traditional banking has been done. This creates a big face up to for traditional banks because they are not able to adjust rapidly to the changes – not in technology, but also in operations, culture, and other facets of the industry.
- **Regulatory pressure-** Regulatory necessities continue to increase, and banks want to spend a large part of their discretionary budget on being compliant, and on building systems and processes to keep up with the escalating necessities.
- **Non Performing Assets -**NPAs have become a crucial anxiety for the banking sector in couple of years and impacted credit delivery of banks to a grand total. As per survey, net NPAs amount to only 2.36 percent of the total loans in the banking system. As per an estimate, the cumulative gross **NPAs** of 24 listed public sector banks, including market leader SBI and its associates, stood at **393035 crore rupees as on 31 December 2015.** However, if restructured assets are taken into account, stressed assets account will be **10.9 percent of the total loans in the system.**
- **The Economic Survey 2015-16** also alarmed the policy makers about their potential to disrupt the growth prospects in the future and growing bad debts with the banks.
- **Reduced profits:** The banking sector showed delay in balance sheet growth for the fourth year in a row in 2015-16. Profitability remained depressed with the return on assets (RoA) continuing to linger below 1 percent. Further, though PSBs account for 72 percent of the total banking sector assets, in terms of profits it has only 42 percent share in overall profits.
- **Issue of Monetary Transmission** Like reduced profits, this is also an off-shoot of burgeoning NPAs in the system. With the easing of inflation and moderation in inflationary expectations, the RBI reduced the repo rate by 100 basis points between January and September 2015.However, change in the key policy rate was not reflected in lending rates as banks are not willing to transmit the benefits of low interest policy regime due to low-availability of liquidity against the backdrop of high NPAs.
- **Corruption** Scams in the **erstwhile Global Trust Bank (GBT) and the Bank of Baroda** showed how few officials abuse the freedom they granted under the guise of liberalization for their special benefit. These have badly damaged their profitability and image of these banks consequently.
- **Crisis in Management** Public-sector banks are visualizing that more employees retire these days. So, elder employees are replaced by younger, more-experienced employees. This however, happens at junior levels. As a result, there would be a fundamental vacuum at the middle and senior level. The nonexistence of middle management could guide to adverse impact on banks' decision making process.

➢ **Steps taken by Government and Banking Sector**

➢ To efficiently address the above issues the Government including the RBI, the Supreme Court and the banks took many initiatives. Some in its Economic Survey 2015-16 suggested four **R's - Recognition, Resolution, Recapitalization, and Reform** to address the trouble of NPAs. In October 2015, the Government announced **Mission Indradhanush** under which 7 key strategies were projected to change public sector banks (PSBs). In May 2015, **the RBI advised all PSBs to appoint internal Ombudsman** to further improve the quality of customer service and to guarantee that there is undivided attention to solve customer complaints in banks. The Government announced its intent to introduce a comprehensive **Insolvency and Bankruptcy Bill** in the Parliament based on the recommendations of **the Dr T K Viswanathan-headed Bankruptcy Law Reforms Committee (BLRC).** In order to reign in dishonesty, **the Supreme Court** on 23 February 2016 lined that the top officials and employees of private banks will be considered as public servants for the rationale of **the Prevention of Corruption Act, 1988.**

➢ The RBI is also facilitating modification of procedural flaws in the method through a number of well-thought-out initiatives like restricting incremental non-performing assets through early detection, monitoring, corrective action plans, shared information, disclosures, etc. In this regard, **theRBI's resolve to clean banks books by 2017** is commendable.

These challenges continue to escalate, so traditional banks need to constantly evaluate and improve their operations in order to keep up with the fast pace of change in the banking and financial industry today. as well as some of the industry's smartest CFOs, CIOs, CMOs, and industry luminaries from across Europe, the Middle East, Africa, and Asia.

- **Conclusion**

In this paper Banks are at the core any economic system whether developed or developing, Essentially, a technologically advanced, transparent and efficient banking system is the need of the hour for the growing economy like India. Critically analysed with its recent trends, features, challenges and measure to face these challenges effectively.

Insurance sector is also showing very slow expansion literally in points only and trust in Insurance products is still very insignificant, it has to be looked into somewhere. Paper reflects that these two sectors are main drivers of Indian economy still their contribution in GDP is very low. . Both sectors are experiencing technological advancement; it's a good sign in terms of cost cutting, speedy and making fast transaction, but the thing is that only 35% population have access to internet and Such facilities still resulting in rush at Banks and Insurance offices for transactions and inquiries and such related activities Ground level procedures need to be followed as recommended in last part of this paper to aid in vision 2020 of India.

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Google introduced Fiber Phone with unlimited domestic calling
Salsa music pioneer Ismael Quintana died
Acharya committee formed to examine desirability & feasibility of new financial year
Haryana launched Adapting homes for the differently-abled scheme