Research paper
Impact Factor (GIF) 0.314

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

A STUDY ON CHANGING DIMENSIONS OF INDIAN BANKING INDUSTRY: CHALLENGES AND OPPORTUNITIES

Dr. Zia Ur Rehman
Head of the Department, Department of Management Studies, NRI Institute of Technology,Guntur.

Introduction

India's banking system is passing through a period of rapid change. While, on the one hand, there is the rapidly widening arc of the branch network, Global banking system and the urge to merge, on the other, there has been reorientation in the operational policies aimed not only at accelerating the pace of economic development but also to help translating the gains of economic growth into meaningful human advancement and fulfillment for the community with particular emphasis on the weaker.

The opening of a large number of branches, especially in the rural and semi-urban areas, provision of new services and introduction of new credit instruments to meet new situations have necessarily given a new dimension to the problems of training of the banking personnel. The provision of basic training to large number and though a short course has become an imperative necessity. In this context the present papers focus on Challenges and opportunities of Indian banking industry.

Indian Banking Industry - Historical Background

In India, the modern banking system was initiated with the establishment of the Presidency Bank of Bengal in 1806, and the Presidency bank of Madras in 1840.However, the post-independence period witnessed the massive growth in the Indian banking sector. Reserve Bank of India was nationalized on January 1, 1949 under the terms of the Reserve Bank of India Act, 1948. In 1949, the Banking Regulation Act was enacted which empowered the Reserve Bank of India to regularize, control and inspect the banks in India. The Banking Regulation Act also provided the number of new banks or branches of an existing bank would be opened with a license from the Reserve Bank of India. 24.4 The RBI acts as banker, both to the central government and state governments. It manages all the banking transactions of the government involving the receipt and payment of money. In addition, RBI remits exchange and performs other banking operations. RBI provides short-term credit to the central government. Such credit helps the government to meet any shortfalls in its receipts over its disbursements. RBI also provides short term credit to state governments as advances.

The issue department of RBI is dedicated to issuing currency. All the currency issued is the monetary liability of RBI that is backed by assets of equal value held by this department. Assets consist of gold, coin, bullion, foreign securities, rupee coins, and the government's rupee securities. Before Nationalization of Banks, despite control and regulation by Reserve Bank of India, banks in India except the State Bank of India continued to be owned and operated by private personnel. But by that time the Indian Banking Industry had grown in size and employed a large number of people thus became an important tool for the development of Indian economy.

In order to ensure more equitable and purposeful distribution of credit on July 19, 1969 the Government of India issued an ordinance and nationalized 14 largest commercial Banks. In April 1980 six more commercial banks were nationalized. With nationalization of these banks the Government of India controlled an overwhelming majority of the banking business in India. Besides the above developments, financial institutions were established for meeting the specialized needs. These include Industrial Development Bank of India (IDBI), Industrial Credit and Investment Bank of India for meeting the long – term financial needs of the large scale operations. Similarly for meeting the requirements of the Small Scale Industries (SSIs), State Financial Corporation (SFC), Small Industries Development (SIDC) and Small Industries Development Bank of India (SIDBI) have been established. The National Bank for Agriculture and Rural Development (NABARD), Land Development Bank (LDB), Regional Rural Bank (RRB) etc. has been established for taking care of the credit needs in the agriculture sector.

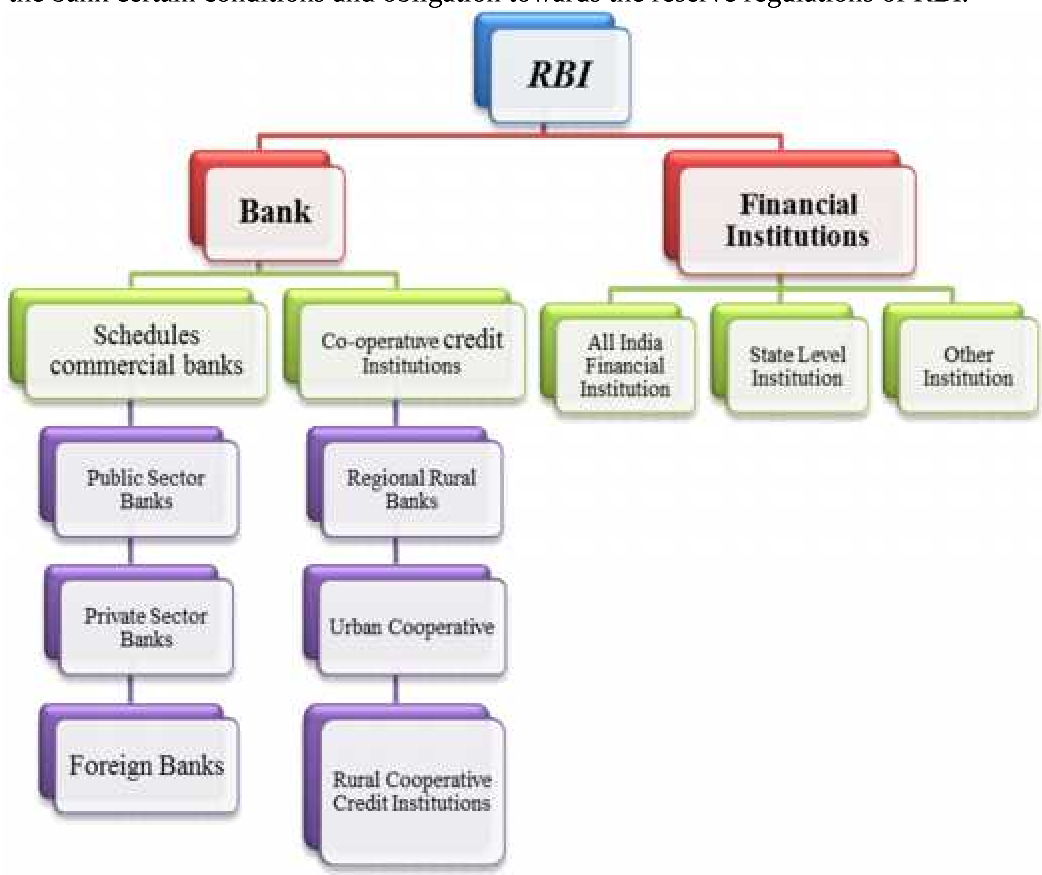
IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

During 1990s India started opening up with changes in the economic policies and introduction of new institutional mechanisms of economic liberalization and financial sector reforms. The government initially licensed small number of private banks which increased over the years. Now, the next stage for the Indian banking has been set up with the proposed relaxation in the norms for Foreign Direct Investment, where all Foreign Investors in banks may be given voting rights which could exceed the present cap of 10%, at present it has gone up to 74% with some restrictions.

Indian Banking Industry Structure
Banking Industry in India functions under the sunshade of Reserve Bank of India - the regulatory, central bank. Banking Industry mainly consists of:

- Commercial Banks
- Co-operative Banks

The commercial banking structure in India consists of: Scheduled Commercial Banks Unscheduled Bank. Scheduled commercial Banks constitute those banks which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. RBI in turn includes only those banks in this schedule which satisfy the criteria laid down vide section 42 (60) of the Act. Some co-operative banks are scheduled commercial banks although not all co-operative banks are. Being a part of the second schedule confers some benefits to the bank in terms of access to accommodation by RBI during the times of liquidity constraints. At the same time, however, this status also subjects the bank certain conditions and obligation towards the reserve regulations of RBI.



Objectives and Methodology
Objectives of the paper

1. To study the overview of banking sector in India, and to know the significant factor which are influencing the Indian banking industry.
2. To find out various challenges faced by the Indian banking industry in this present global context.
3. To suggest few innovative ideas for the better work and develop the Indian banking industry.

Sources of the Data

The nature of the present study is perspective and conceptual. The universe of this study is Indian banking sector. To fulfill the above mention objectives, secondary data is used which is taken from the various reports published by Reserve bank of India (RBI) , National bank for agricultural and rural development (NABARD), Central statistical organization Economic survey of India and lead bank report. Primary data are also collected from discussion of banks officials and representatives.

Significance of the Study

The Present study “Changing Dimensions of Indian Banking Industry: Challenges and Opportunities” will be use full to all the bankers and policy makers those are want to know the challenges faced by the Indian bank.

Challenges Faced by the Indian Banking Industry

Developing countries like India, still has a huge number of people who do not 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 competition. Since, foreign banks are playing in Indian market, the number of services offered has increased and banks have laid emphasis on meeting the customer expectations.

Now, the existing situation has created various challenges and opportunity for Indian Commercial Banks. In order to encounter the general scenario of banking industry we need to understand the challenges and opportunities lying with banking industry of India. Evidence from across the world suggests that a sound and evolved banking system is required for sustained economic development. India has a better banking system in place vis a vis other developing countries, but there are several issues that need to be ironed out.
In this paper, we try and look into the challenges that the banking sector in India faces.

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.

Management of Risks

The growing competition increases the competitiveness among banks. But, existing global banking scenario is seriously posing threats for Indian banking industry. We have already witnessed the bankruptcy of some foreign banks.

Global Banking

It is practically and fundamentally impossible for any nation to exclude itself from world economy. Therefore, for sustainable development, one has to adopt integration process in the form of liberalization and globalization as India spread the red carpet for foreign firms in 1991. 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. These foreign banks are large in size, technically advanced and having presence in global market, which gives more and better options and services to Indian traders.

Financial Inclusion

Financial inclusion has become a necessity in today's business environment. Whatever is produced by business houses, that has 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. Apart from formal banking institutions, which should look at inclusion both as a business opportunity and social responsibility, here it is conclude that role of the self-help group movement and microfinance institutions is important to improve financial inclusion.

Competition in Retail banking

The entry of new generation private sector banks has changed the entire scenario. Earlier the household savings went into banks and the banks then lent out money to corporate. Now they need to sell banking. The retail segment, which was earlier ignored, is now the most important of the lot, with the banks jumping over one another to give out loans. The consumer has never been so lucky with so many banks offering so many products to choose from. With supply far exceeding demand it has been a race to the bottom, with the banks undercutting one another. A lot of foreign banks have already burnt their fingers in the retail game and have now decided to get out of a few retail segments completely.

The nimble footed new generation private sector banks have taken a lead on this front and the public sector banks are trying to play catch up. The PSBs have been losing business to the private sector banks in this segment. PSBs need to figure out the means to generate profitable business from this segment in the days to come.

The urge to Merge

In the recent past there has been a lot of talk about Indian Banks lacking in scale and size. The State Bank of India is the only bank from India to make it to the list of Top 100 banks, globally. Most of the PSBs are either looking to pick up a smaller bank or waiting to be picked up by a larger bank. The central government also seems to be game about the issue and is seen to be encouraging PSBs to merge or acquire other banks. Global evidence seems to suggest that even though there is great enthusiasm when companies merge or get acquired, majority of the mergers/acquisitions do not really work.

So in the zeal to merge with or acquire another bank the PSBs should not let their common sense take a back seat. Before a merger is carried out cultural issues should be looked into. A bank based primarily out of North India might want to acquire a bank based primarily out of South India to increase its geographical presence but their cultures might be very different. So the integration process might become very difficult. Technological compatibility is another issue that needs to be looked into in details before any merger or acquisition is carried out. The banks must not just merge because everybody around them is merging. As Keynes wrote, "Worldly wisdom teaches us that it's better for reputation to fail conventionally than succeed unconventionally". Banks should avoid falling into this trap.

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.

Conclusion

Over the years, it has been observed that clouds of trepidation and drops of growth are two important phenomena of market, which frequently changes in different sets of conditions. The pre and post liberalization era has witnessed various environmental changes which directly affects the aforesaid phenomena. It is evident that post

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

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 rural market, transparency, customer expectations, management of risks, and growth in banking sector, human factor, global banking, environmental concern, social, ethical issues, and employee and customer retentions. 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.

Suggestions

As per the above discussion, we can say that the biggest challenge for banking industry is to serve the mass market of India. Companies have shifted their focus from product to customer. 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. Expansion of branch size in order to increase market share is another tool to combat competitors. Therefore, Indian nationalized and private sector banks must spread their wings towards global markets as some of them have already done it. Indian banks are trustworthy brands in Indian market; therefore, these banks must utilize their brand equity as it is a valuable asset for them.

Reference

1. Goyal and Joshi, “Mergers in Banking Industry of India: Some Emerging Issues”, Asian Journal of Business and Management Sciences, Vil. 1(2), Pp. 157-165, 2011.
2. Bedi, Ayyar and Shenoy, “Theory and Practice of Banking”, Jeevandeep Prakashan, 1984.
3. Swamy, “Deregulation and Emerging Changes in Indian Banking”, Bank Quest, Vol.729 Pp.3-22, 2011.
4. Basu, “Commercial Banking in the Planned Economy of India”, Mittal Publications, New Delhi, 1991.
5. Das Abhiman, “Risk and Productivity Change of Public Sector Banks”, Economic and Political weekly, Vol.37 (5), Pp.437-448, 2002.
6. Chaitanya V Krishna, “Causes of Non-Performing Assets in Public Sector Banks”, Economic Research, Vol.17(1), Pp.16-30, 2004.
7. Benson and Kunju, “Commercial Banks in India: Growth, Challenges and Strategies”, New Century Publication, New Deli, 2008.
8. Choudhary and Ahmad, “Problems of Marketing of Banks Service in Rural Areas”, Bank Parkrama, March-June, 1982.
9. Report on Trend & Progress of Banking in India 2010-11, Reserve Bank of India.
10. Report of the Narasimham Committee on Banking Sector Reforms, 1998.