

***INDIAN BANKING INDUSTRY: CHALLENGES AND  
OPPORTUNITIES***

**By Vishakha Torane**

**Abstract**

India is the largest economy in the world having more than 120 crore population. The economic reforms initiated by the Government of India about two decades ago have changed the landscape of several sectors of the Indian economy. The Indian banking sector is no exception. This sector is going through major changes as a consequence of economic reforms. Today in India the service sector is contributing half of the Indian GDP and the banking is most popular service sector in India. The significant role of the banking industry is essential to speed up the social economic development. Banks play an important role in the economic development of developing countries. Economic development involves investment in various sectors of the economy. The banking industry in India has a huge canvas of history, which covers the traditional banking practices from the time of Britishers to the reforms period. Therefore, Banking in India has been through a long journey. This paper explains the challenges and opportunities faced by the Indian Banking Sectors.

**Keywords**

E-Banking, Economic reforms, GDP, Indian Banks

### **Introduction**

A bank is a monetary institution that provides banking and other financial services to their customers. A bank is generally understood as an institution which provides fundamental banking services such as accepting deposits and providing loans. There are also non-banking institutions that provide certain banking services without meeting the legal definition of a bank. Banks are a subset of the financial services industry. India is one of the top 10 economies in the world, where the banking sector has tremendous potential to grow. The last decade saw customers embracing ATM, the internet, and mobile banking. India's banking sector is currently valued at Rs. 81 trillion (US\$ 1.31 trillion). It has the potential to become the fifth largest banking industry in the world by 2020 and the third largest by 2025, according to an industry report. The face of Indian banking has changed over the years. Banks are now reaching out to the masses with technology to facilitate greater ease of communication, and transactions are carried out through the Internet and mobile devices.

A banking system also referred as a system provided by the bank which offers cash management services for customers, reporting the transactions of their accounts and portfolios, throughout the day. The banking system in India should not only be hassle free but it should be able to meet the new challenges posed by the technology and any other external and internal factors. For the past three decades, India's banking system has several outstanding achievements to its credit. The Banks are the main participants of the financial system in India. The Banking sector offers several amenities and opportunities to their customers. All the banks protect the money and valuables and provide loans, credit, and payment services, such as checking accounts, money orders, and cashier's cheques. The banks also offer investment and insurance products. As the variety of models for cooperation and addition among finance industries have emerged, some of the traditional distinctions between banks, insurance companies, and securities firms have diminished. In spite of these changes, banks continue to maintain and perform their primary role—accepting deposits and lending funds from these deposits.

### **Historical Background**

Bank of Hindustan was set up in 1870; it was the earliest Indian Bank. Later, three management Banks under Presidency Bank's act 1876 i.e. Bank of Calcutta, Bank of Bombay and Bank of Madras were set up, which laid the establishment for modern banking in India. In 1921, all presidency banks were amalgamated to form the Imperial Bank of India. Imperial bank carried out a limited number of central banking functions prior to the establishment of RBI. It engaged in all types of commercial banking business except dealing in foreign exchange.

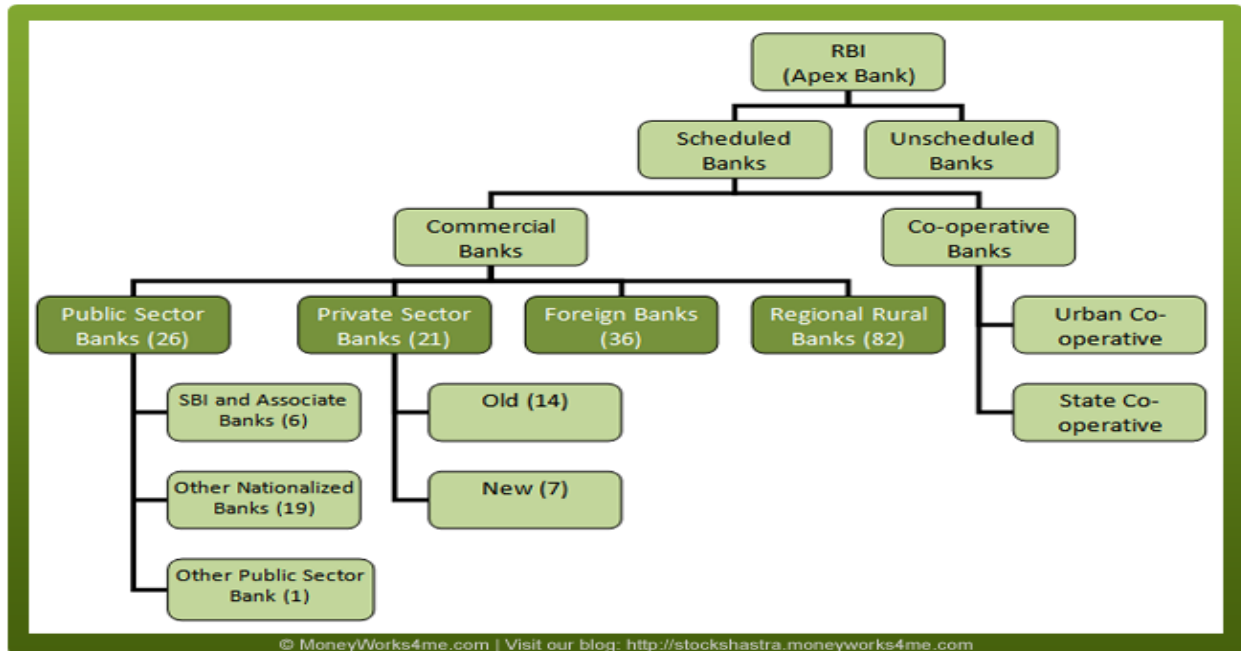
The Indian banking sector is generally classified into scheduled bank and non-scheduled banks. The scheduled banks are those included in the 2nd Schedule of the Reserve Bank of India Act, 1934. The scheduled banks are further classified into nationalized banks; State Bank of India and its acquaintances; Regional Rural Banks (RRBs); foreign banks; and other Indian private sector banks. The word commercial banks refer to both scheduled and non-scheduled commercial banks regulated under the Banking Regulation Act, 1949.

Generally, banking in India is fairly grown-up in terms of supply, product range and reach-even though reach in rural India and to the poor still remains a challenge. The government has developed initiatives to address this through the State Bank of India increasing its branch network and through the National Bank for Agriculture and Rural Development with facilities like microfinance.

### **Indian banking structure**

The banks play a stellar role in the development of the nation with its high social content and commitment. The banks act as a development agency and are the source of hope and aspirations of the masses. Banking and finance are like oxygen to any democracy. The structure of the banking system is determined by two basic factors – economic and legal. The development of the economy and the spread of banking habit calls for increasing banking services. The demand for these banking services affects the banks' structure and organization. National objectives and aspirations result in government regulations, which have a deep influence on the banking structure.

The Reserve Bank of India began operations on April 01, 1935. The banks in India are being segregated in dissimilar groups. Each group has their own return and benefits, own devoted target markets and customer base with limitations of operation in India. The banking industry in India functions under the eagle's eye of Reserve Bank of India which is the dictatorial central bank. Banking Industry mainly consists of Commercial Banks and Cooperative Banks.



## Objectives

1. To analyze the effect of liberalization, privatization & globalization.
2. To study the challenges and opportunities of national and commercial banks in changing banking scenario.
3. To make an effort so as to know the significance of banks in India

## Methodology

This paper is the result of a secondary data on Indian Banking Sector with special reference to the Indian context. To complete this, information has been collected with the help of annual reports, various books, journals, magazines, and periodicals have been consulted, several reports in this particular area have been considered, and internet searching has also been done.

## Challenges Faced By Indian Banking Industry

The banking sector in India has made quick strides in streamlining & aligning itself to the new aggressive business environment. One of the major challenges that Indian banks are

facing today is how to cope with competitive services in order to strengthen their balance sheet. Nowadays, banks are whimpering with the burden of NonPerforming Assets (NPA). It is truly felt that these debts, if not recovered, will eat into the very vitals of banks.

### **Rural Market**

Banking in India is generally fairly mature in terms of product range, supply, and reach, even though reach in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of capital adequacy and quality of assets, Indian banks are considered to have clean, strong and clear balance sheets relative to other banks in comparable economies in its region.

### **Management of Risks**

The rising 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.

Wolgast, (2001) studied the merger and acquisition activity among financial firms. The author focused bank supervisors in context with success of mergers, risk management financial system stability and market liquidity. The study found concluded that large institutions are able to maintain a superior level of risk management.

### **Global Banking**

It is fundamentally and practically impossible for any nation to exclude itself from the world economy. Therefore, for sustainable development, one has to adopt integration process in the form of liberalization and globalizations as India extend the red carpet for foreign firms in 1991. The crash 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 a presence in the global market, which gives more and better options and services to Indian traders.

### **Financial inclusion**

Financial inclusion has become an essential in today's business environment. Whatever is produced by business houses that have to be under the test out 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 awareness to improving 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.

### **High Transaction Costs**

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.

### **Competition**

With the ever increasing pace and extent of globalization of the Indian economy and the systematic opening up of the Indian Banking System to global competition, banks need to equip themselves to operate in the increasingly competitive Environment. This will make it imperative for Banks to enhance their systems and procedures to international standards and also simultaneously fortify their financial positions.

### **Employees' Retention**

The banking industry has changed rapidly in the last ten years, shifting from transactional and customer service-oriented to an increasingly aggressive environment, where competition for revenue is on right of way. 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 council because the competition is always moving in to hire them away.

### **Opportunities of banking industry**

- 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
- Larger customer checking account balances

### **Conclusion**

India is one of the top 10 economies in the world, where the banking sector has tremendous potential to grow. The number of ATMs has doubled over the past few years, with more than 100,000 in the country at present (70 percent in urban areas). They are estimated to further double by 2016, with over 50 per cent expected to be set up in small towns. Also, the scope for mobile and internet banking is big. At the start of 2014, only 2 per cent of banking payments went through the electronic system in the country. Today, mobility and customer convenience are viewed as the primary factors of growth and banks are constantly exploring new technology, with terms such as mobile solutions and cloud computing being used with greater regularity.

This paper 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 diversify and upgrade themselves so as to compete and survive in the market.

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### **Bio**

Vishakha torane is currently working as Assistant Professor in Bharat College of Arts and Commerce, Badlapur.