INTERNATIONAL JOURNAL OF RESEARCH CULTURE SOCIETY ISSN(O): 2456-6683
Monthly Peer-Reviewed, Refereed, Indexed Journal [Impact Factor: 6.834]
Volume - 7, Issue - 5, May - 2023 Publication Date:31/05/2023

DOIs:10.2017/IJRCS/202305026 --:-- Research Paper / Article / Review

Indian Banking Sector –Emerging Issues and Challenges : A Study

Y. ARCHANA
Faculty of Commerce
Email - archanapalakurthi26@gmail.com

Abstract: *In Indian banking industry has huge canvas of history, which covers the financial banking practices from the time of Britisher's to the reforms period, nationalization to privatization of banks. Banking sector plays a very crucial role in Indian economic and monetary policies of India. The overall framework and the business dynamics of this sector largely differs from other sectors. The regulatory framework for this sector is very strong and levels no room for any discrepancies. Unlike, customer expectations, technological capabilities, regulatory requirements demographics and economics arc together creating an imperative to change. Banks need to get ahead of these challenges and retool to win in the next era. Banks must not only execute on today's imperatives but also radically innovate and transform themselves for the future. The biggest challenge before the regulators is of avoiding instability in the Indian banking financial system. In this paper an attempt has been made to review various challenges which are likely to be faced by Indian banking industry economy rolling.*

Keywords*: Technology in Banking, RBI, Liberalization, Demography, Challenges and Opportunities.*

1. INTRODUCTION:

The World Economy is passing through some intricate circumstances as bankruptcy of banking & financial institutions, debt crisis in major economies of the world and euro zone crisis. The scenario has become very uncertain causing recession in major economies like US and Europe. This poses some serious questions about the survival, growth and maintaining the sustainable development of the nation. However, 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 is like oxygen to any democracy. Banking sector participates in macro economic and monetary policies of any country. It plays a crucial role in supporting companies and projects. The business dynamics of banking sector largely differs from other sectors. They exist in order to screen potential borrowers, monitor customers' actions and efforts, provide liquidity risk insurance and create safe assets. The banks reduce both moral hazard and adverse selection by collecting information from individual depositors, identifying profitable investments and then channeling these funds to productive ventures.

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, nationalization to privatization of banks and now increasing numbers of foreign banks in India. Therefore, Banking in India has been through a long journey. Indian Banking Sector has witnessed a number of changes. It has undergone a huge transformation in the years since Independence. It is evident from the higher pace of credit development; expanding profitability and productivity similar to banks in developed markets, lower incidence of non-per forming assets and focus on financial inclusion have contributed to making Indian banking vibrant and strong Indian banks have begun to revise their growth approach and re-evaluate the prospects on hand to keep the economy rolling.

2. Review of Literature :

Avasthi & Sharma (2000-01) have analyzed in their study that advances in technology are set to change the face of banking business. Technology has transformed the delivery channels by banks in retail banking. It has also impacted the markets of banks. The study also explored the challenges that banking industry and its regulator lace. B. Janki (2002) analyzed that how technology is affecting the employees' productivity. There is no doubt. In India particularly public sector banks will need to use technology to improve operating efficiency and customer services. The focus on technology will increase like never before to add value to customer services, develop new products, strengthen risk management etc. the study concludes that technology is the only tool to achieve their goals. Technological change and the advent of the internet are among the most dramatic and challenging areas of change for the sector. Technological innovations have shown the increased productivity as stated by Rishi and Saxena (2004). Study identified that technological innovations in the banking sector in industrialized countries have been shown to increase productivity of banking industry around the world. Arora(2003) highlighted the significance of bank transformation. Technology has a definitive role in facilitating transactions in the banking sector and the impact of technology implementation has resulted in the introduction of new products and services by various banks in India.

Hua G. (2009) investigates the online banking acceptance in China by conducting an experiment to investigate how users' perception about online banking is affected by the perceived ease of use of website and the privacy policy provided by the online banking website. Jalan. B. (2003), IT revolution has brought about a fundamental transformation is banking industry. Perhaps no other sector has been affected by advances in technology as much as banking & finance. It has the most important factor for dealing with the Intensifying competition & the rapid proliferation of financial innovations. Mittal R.K. & Dhingra, S. (2007) studied the role of technology in banking sector. They analyzed investment scenario in technology in Indian banks but this study was related to the time period before the Information Technology Act and at that time technology in Indian banks was very low. But both the researchers nicely presented their views. Padhy, K.C. (2007) studied the impact of technology development in the banking system and he also highlights the future of banking sector. The core competencies will provide comparative advantages.

3. Objectives of the Study :

The present study titled "Indian Banking Industry Challenges and Opportunities" has been taken up with the following objectives:

- To study the Historical background of banking sector in India.
- To study the Present structure of Indian banking industry.
- To study how innovations have contributed to the development of Indian banking.
- To study the challenges faced by Indian banks in the changing scenario.
- To study the opportunities to beat the challenges for Indian banking industries

4. Research Methodology :

The research work is carried out on the basis of descriptive research design. The study was target) of a secondary research which relied on secondary data from mainstream banks. Secondary data obtained from the annual prospectus of mainstream banks. More secondary data was obtained from newt lines, research findings from similar studies obtained from libraries, newspapers. Text books. Websites and other publications.

5. Banking Sector in India :

Banking in India has been through a long journey. Banking industry in India has also achieved a new height with the changing times. The fundamental aspects of banking i.e. trust and the confidence of the people on the institution remain the same. The majority of the banks are still successful in keeping with the confidence of the shareholders as well as other stakeholders. However, with the changing dynamics of banking business brings new kind of risk exposure.

6. Historical Background of Banking Sector in India :

Bank of Hindustan was set up in 1870: it was the earliest Indian Bank Later, three presidency banks under Presidency Bank's act 1876 i.e. Bank of Calcutta. Bank of Bombay and Bank of Madras were set up. Which laid foundation for modem banking in India. In 1921. all presidency banks were amalgamated to form the Imperial Bank of India. Imperial bank carried out limited number of central banking functions prior to establishment of RBI. It engaged in all types of commercial banking business except dealing in foreign exchange. Reserve Bank of India Act was passed in 1934. The Reserve Bank of India was nationalized on January 1. 1949 under the terms of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948. In 1949. the Banking Regulation Act was enacted which empowered the Reserve Bank of India (RBI) "to regulate, control, and inspect the banks in India." The Banking Regulation Act also provided that no new bank or branch of an existing bank could be opened without a license from the RBI, and no two banks could have common directors.

This regulation brought RBI under government control. In I955, RBI acquired control of the Imperial Bank of India, which was renamed as State Bank of India in 1959. SBI took over control of eight private banks floated in the erstwhile princely States, making them as its 100% subsidiaries. It was 1960, when RBI was empowered to force compulsory merger of weak banks with the strong ones. It significantly reduced the total number of banks from 566 in 1951 to 85 in 1969. In July 1969, government nationalized 14 banks having deposits of Rs.50 crores & above. In

1980, government acquired 6 more banks with deposits of more than Rs.200 crores. Nationalization of banks was to make them play the role of catalytic agents for economic growth. The Narasimha Committee report suggested wide ranging reforms for the banking sector in 1992 to introduce internationally accepted banking practices. The amendment of Banking Regulation Act in 1993 saw the entry of new private sector banks. Banking industry is the back bone for growth of any economy. The journey of Indian Banking Industry has faced many waves of economic crisis. We have seen the economic crisis of US in 2008-09 and also the European crisis. The general scenario of the world economy is very critical.

It is the banking rules and regulation framework of India which has prevented it from the world economic crisis. In order to understand the challenges and opportunities of Indian Banking Industry, we need to understand the structure of Indian Banking Industry.

7. The Structure of Indian Banking Industry :

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 call for increasing banking services. The demand for these banking services affects the banks structure and organisation. National objectives and aspirations result in government regulations, which have a profound influence on the banking structure.

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

- Commercial Banks
- Co-operative Banks

The Schedule honking structure in India consists of: Commercial hanks and non Co-operative banks. 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 cooperative 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.

8. CHALLENGES FACED BY INDIAN BANKING INDUSTRY :

There has been considerable widening and deepening of the Indian financial system in the recent years. The enhanced role of the Banking sector in the Indian Economy, the increasing levels of deregulations and the increasing levels of competition have placed numerous demands on Banks. The adverse consequences of malfunction of the Banking system could be more severe than in the past. Hence focus of RBI, the regulator & supervisor of Indian Banking system is at ensuring greater financial stability the post reform period and due to the situation Liberalization. Privatization and Globalization. Indian banking sector is facing some problems and challenges. These are as under

- Low Profitability and Productivity
- Lack of Integrity
- Increase of Administrative Expenses
- Survival of loss making branches
- Scandals
- Lack of Professional Behavior
- Lack of professional and friendly approaches with customer
- Customer oriented market
- Problem of customer satisfaction
- Depression period running over the country
- Managing work force
- Management of technological advancement /technology up-Gradation
- Competition from MNCs
- Managing diversified needs of customers
- Diminishing customer loyalty
- Coping with regulatory reforms

- Restructuring and re-organising banks' setup towards thinner and leaner administrative offices
- Maintaining high quality assets.
- Management of impaired assets.
- Problem of Non-Performing Assets (NPA).

9. OPPORTUNITIES OF INDIAN RANKING INDUSTRY:

Banking industry is likely to continue to be healthy, ongoing trends raise a number of public policy issues, mainly related to the increased size and complexity of banking organisations. Chief among the issues that policy makers need to consider arc the safety and soundness of banking in an industry dominated by megabanks, and concerns related to bank customers and markets. However hanks have some prospects in present environment. By converting challenges into opportunities, the bank can have better advantages these opportunities are as under

- Offering of innovative products
- Door to door service approach
- Customer relationship management
- Professional approaches
- Managerial excellence
- Marketing and technological advancement
- Customized and cyber services
- Branch expansion
- Deposit Mobilization
- Non Performance Assets (NPA) management
- Asset reconstruction
- Motivational HRM policies for skilled man power
- Change in lending process
- Merger and acquisition
- Total quality management concept
- Overseas expansion
- Up-gradation of New Technology
- Government reforms
- Consumer protection

However, each priority is important, for success of banking industries in India and success will come from a balanced execution of them. The pace of change is increasing and banks need to do even more to ensure they are well-positioned to succeed in the future.

10. CONCLUSION :

This study concludes, that banks have not lost their importance as financial intermediaries and that they have in fact evolved to meet the challenges and demands of the new world of finance. Banks are still at the center of the payments system. Indeed, virtually every financial transaction that involves a net transfer of wealth is still eventually settled through the banking system. Banks also continue to play an important role in the transmission of monetary policy. And despite signs of disintermediation and what some see as a decline in the relative importance of banks, banks continue to serve as the primary sources of credit to important segments of the economy (such as small businesses and small farms).

REFERENCES:

1. Allen, L and A Rai (1996): ìOperational efficiency in banking: an international comparisonî, Journal of Banking and Finance, vol 20, no 4, May, pp 655-72.
2. Barth, J, G Caprio and R Levine (2000): ìBanking systems around the globe: do regulation and ownership affect performance and stability?î, World Bank Policy Research Working Paper, no 2325, April.
3. Berger, A, R Demetz and P Strahan (1999): ìThe consolidation of the financial services industry: causes, consequences and implications for the futureî, Journal of Banking and Finance, vol 23, no 2, February, pp 135-94.

4. Berger, A and R DeYoung (2001): ìThe effects of geographic expansion on bank efficiencyî, Federal Reserve Board Finance and Economics Discussion Paper, no 2001-03.
5. A, R DeYoung, H Genay and G Udell (2000): ìGlobalization of financial institutions: evidence from cross-border banking performanceî, Brookings-Wharton Papers on Financial Services 2000, pp 23-158.
6. A, W Hunter and S Timme (1993): ìThe efficiency of financial institutions: a review and preview of research past, present and futureî, Journal of Banking and Finance, vol 17, no 2, April, pp 221-49.
7. Borio, C and K Tsatsaronis (1996): ìRestructuring in banking: the role of mergers and acquisitionsî, paper presented at the conference ìTowards a common European banking market: national strategies and policy issuesî, Bocconi University, Milan, 10 May.