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A Study on Issues and Challenges of Indian Banking Sector

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Abstract

Banks performs crucial functions within the improvement of a country. The simple role of business banks is to mobilize financial assets to fulfill the economic needs of diverse productive sectors of economy. In different words monetary improvement is financial progress of a country however Banks have catalyst function in financial improvement because banks manage a huge part of deliver of money in move In India for development of Financing inner and outside alternate and Provision for long-term Finance for the improvement of Agriculture and numerous purchasers activities.

Key words; Banking Service, Savings, Business, Development, Financing.

Introduction

Indian banks undergoes transformational changes, it covered various difficult terrain, the indignities of foreign rules, partition and various other difficulties for the progress of the country. Indian banking sector is describes as a lifeline of nation, it has developed various vital sector of the economy. Banks in India have been gone through a long journey. Before 20th century, lending money by money lenders was at very high rate of interest. Rural people were highly exploited. Banking system in India originated in the 18th century. Banks are regulated by RBI. Reserve bank of India is responsible for licensing of banks and its branches. Today, Indian banks can confidently compete with modern banks of the world. Indian economy witnessed the phases of liberalization, Privatization and globalization. During these period public sector banks, had to faces many deteriorating performance. The nationalization outlasts its utility. The public sector banks were in need of advanced and modern technology. So the need for computerization along with networking among the vast branch network was urgently felt. So on the reform path, the

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first Narasimham Committee on Financial Sector Reforms put forward its recommendations. It gives a new life to public sector banks. About 80% of the businesses are controlled by Public Sector Banks (PSBs). PSBs are still dominating the commercial banking system. The RBI has given licenses to new private sector banks in the liberalization process. Moreover, in view of increased competition, the structure of Indian banking system is expected to undergo a transformation and the main drivers of which will be consolidation, convergence, and technology. As Public Sector Banks (PSBs), dominating the commercial banking sector in India they account for more than 78 per cent of the total banking industry assets but then also they are burdened with excessive Non Performing assets (NPAs), massive manpower and lack of modern technology. On the other hand the Private Sector Banks banking, are ahead in mobile banking, phone banking, ATMs. As far as foreign banks are concerned they are likely to succeed in the Indian Banking Industry.

Indian banks undergoes transformational changes, it included various difficult terrain, the indignities of overseas policies, partition and various different difficulties for the progress of the Country. Indian banking region is describes as a lifeline of nation, it has developed diverse essential zone of the economic system. Banks in India had been long past via a long journey. before 20th century, lending cash by means of money lenders changed into at very excessive price of interest. Rural people were particularly exploited. Banking device in India originated in the 18th century. Banks are regulated by way of RBI. Reserve bank of India is liable for licensing of banks and its branches. nowadays, Indian banks can confidently compete with current banks of the arena. Indian economic system witnessed the levels of liberalization, Privatization and globalization. throughout these length public quarter banks, needed to faces many deteriorating overall performance. The nationalization outlasts its utility. the general public area banks had been in need of superior and contemporary technology. So the need for computerization along with networking among the sizeable department network become urgently felt. So on the reform course, the primary Narasimham Committee on financial area Reforms put forward its recommendations. It gives a new life to public sector banks. about 80% of the agencies are controlled by using Public zone Banks (PSBs). PSBs are nevertheless dominating the economic banking machine. The RBI has given licenses to new private quarter banks in the liberalization technique. furthermore, in view of multiplied competition, the structure of Indian

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banking gadget is predicted to undergo a change and the principle drivers of with a purpose to be consolidation, convergence, and generation. As Public zone Banks (PSBs), dominating the commercial banking sector in India they account for more than seventy eight in step with cent of the full banking industry belongings however then additionally they are confused with excessive Non acting assets (NPAs), huge manpower and absence of contemporary era. however the private zone Banks banking, are ahead in cell banking, telephone banking, ATMs. As a long way as overseas banks are involved they may be possibly to be successful in the Indian Banking industry.

Objective:

The objective of this paper is to explain the changing banking scenario, to study the challenges and opportunities of Indian banks and to analyze the impact of liberalization, privatization & globalization.

Research Methodology

A secondary data on Indian Banking Sector is used in this paper. To complete this, annual reports, various books, journals and periodicals have been consulted and internet searching has also been done.

Evolution of banks:

Indian banking industry leads its foundations inside the 18th century. bank of India and financial institution of Hindustan was the first financial institution in India. Calcutta became the banking centre. After that financial institution of Bengal, financial institution of Bombay and financial institution of Madras are merged and converted it into Imperial financial institution of India. Imperial bank renamed as state bank of India in 1955. Punjab countrywide bank changed into in basic terms controlled and owned with the aid of Indians in1895 in Lahore whilst first Indian financial institution owned and managed via Indian was imperative financial institution of India set up in 1911. The preliminary days of the industry have non-public ownership. Public possession is made with nationalization in 1969 and 1980. In 1935 the Reserve financial institution is given obligation for regulating Indian banking and licensing of banks and branches. Banking organization is becoming complex because of generation development, innovation, etc. economic reforms brings diverse changes within the banking and economic market. The

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importance of private and foreign players cannot be neglected in this aggressive scenario. So the banking industry has moved closer to extra liberalization

Services/facilities of provided by the banks

1. Electronic Payment Services (E-Cheques): E-Cheques, replaces the conventional paper 'Cheques'.
2. Electronic Funds Transfer (EFT):-EFT is an electronic way of fund transfer. Fund transfer from one account to another electronically.
3. Real Time Cross Settlement (RTGS): It is efficient and fast transfer facility. The fund is transfers within 2 hrs from one account to another account.
4. Electronic Clearing Service (ECS): ECS is a paperless mode of fund transfer.
5. Automatic Teller Machine (ATM): It enables the customer to perform transaction through ATM card. 6. Telebanking: It helps the customer to access information about their account telephonically.
6. Mobile Banking: Customers conduct a sequence of financial transactions through use of a mobile phone
7. Internet Banking: Also known as E-Banking or online banking. Internet banking use internet for buying, making payment delivery of banking products and services.
8. Demateralization: Demat is dematerialization of shares, it is a process of converting customers' securities from physical to electronic form in the depository system. It helps in trading and settlement of securities safely and quickly.
9. Credit Card: In debit card bank pays on behalf of the card holder and later on cardholder has to pay the dues with some interest

Issues and challenges in banking Sectors

Asset Quality: Loans taken aren't repaid returned by way of the borrower are horrific loans or NPAs (Non reforming property). these high tiers of NPAs represent a biggest threat to India's banks. To address this problem, various options are to be had like setting up of Lok Adalats for recovering smaller loans, reducing the present NPAs via proper measures, increasing Debt restoration Tribunals, complete ban on generalized mortgage waivers, setting up of Asset

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Reconstruction Fund (ARF) as encouraged through the NC (1991) and to reiterated in its 2d report (1998).

Worker: because of innovation banks employee are not able to satisfy new expectation which results in detachment and replacement of elder, experienced employee of Public-zone banks via younger and green employee by means of the retirement schemes and it influences the performance of banks . but detachment results in lack of precious consumer relationships. So the bank enterprise is worried approximately retention of employees. "The absence of middle control should cause negative effect on banks' selection making procedure as this phase of officers played a critical role in translating the pinnacle control's approach into potential action plans," the deputy governor stated.

Technology: with a view to continue to exist in these competitive surroundings there's need of advanced era because it offer comfort to clients through supplying E-banking, value powerful carrier, and decreased transaction time ,by using the usage of powerful generation however public quarter financial institution is only eighty computer computerized and are using conventional methods of operation in comparison of personal and foreign banks. So so as to survive there may be need of entire up gradation of technology. Loss making branches and overstaffing:

Loss making branches and overstaffing is also one of the purpose for inefficiency of Indian banks. progressive methods: Innovation in advertising and marketing method is missing in Indian public sector banks which provide aggressive area over overseas banks

Frauds devoted through insiders: in recent times fraud could be very not unusual in every Indian financial institution, suitable punishment encouraged so one can win the customers religion.

Negative Asset satisfactory of public sector banks: Public region banks set up with aim of social paintings but it should also focus on asset great and earnings.

Indian consumer: With converting profiles of consumer in phrases of earnings levels and cultural shifts and to gain side over competitor there's want for bank to become customers centric. With extra annoying patron there's need to offer broad variety of services through multiple delivery channels. As in Indian banking system the most important possibility is the Indian client.

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Capital adequacy: considered one of the largest demanding situations for financial institution is fall in capital adequacy ratio manner capital owned by financial institution. In such cases financial institution has to borrow cash or to apply depositors' money, which cause fall in car (frequently referred to as as CRAR or Capital to hazard belongings Ratio). If banks fail to fulfill the minimal capital requirement set by means of RBI it will lead to severe problem. extreme competition: As low entry barrier lets in the foreign banks and private banks to set up their branches or subsidiaries in India results in intense opposition to Indian banks.

Monetary Inclusion: The committee on monetary Inclusion has defined it as, "monetary inclusion denotes delivery of financial offerings at an less costly price to the considerable sections of the disadvantaged and coffee-earnings companies. The diverse monetary services encompass credit, savings, coverage and bills and remittance centers. The objective of monetary inclusion is to increase the scope of activities of the prepared monetary system to encompass inside its ambit people with low incomes. via graduated credit score, the strive have to be to raise the terrible from one stage to any other in order that they come out of poverty." "The system of making sure get admission to to financial offerings and well timed and ok credit score wherein needed by inclined groups along with weaker sections and low profits agencies at an low-cost value."

Social and moral factors: Banks are also speculated to satisfy the social responsibility, aside from earnings maximization. Social banking includes issue for social, environmental, and moral agendas. They invest cash for good motive of society.

global banking: Globalization leads to opposition with the global players/ foreign banks. these constitute a prime undertaking for the Indian banks. those foreign banks are large in length, technically advanced and having presence in worldwide market, which gives tough competition to Indian bankers.

Rural market: This operating organization concluded that the existing companies, even after vital restructuring and change , were not able to satisfy varied and growing wishes of rural credit and on those main premise, endorsed establishment of nearby rural banks. The working agencies envisaged the brand new group as one that "combines the local feel and familiarity with rural troubles which cooperatives posses and the diploma of enterprise company, ability to mobilize deposits, get admission to to important cash markets and modernized outlook which the commercial banks have"

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WTO & Public area Banks: numerous possibilities is supplied by means of unfastened trading surroundings but lack of knowledge concerning settlement and issues related to global trade corporation (WTO) ends in scarcity of normal blessings to Public region banks. information and assimilation of various blessings are essential to maintain the organization in advance.

Control of dangers: various threats also are related to globalization and liberalization. bankruptcy of overseas banks is very common this present day. So management of such risk is very critical. Al-Tamimi and Al-Mazrooei (2007) examined the threat management practices and strategies in dealing with distinctive kinds of risk. furthermore, they compared threat control practices between the two sets of banks. The study discovered the three maximum important varieties of danger i.e. business banks forex threat, followed by using credit danger, and working hazard.

Excessive boom price: growth of banking enterprise brought about accumulation of non-acting belongings which result in excessive transaction value of carrying NPA and it pull down the performance of Indian banks.

Market subject and Transparency: according to Fernando (2011) transparency and disclosure norms as part of across the world widely wide-spread corporate governance practices are assuming more importance in the emerging environment. Banks are predicted to be greater responsive and responsible to the traders. Banks have to reveal of their stability sheets a plethora of information at the maturity profiles of property and liabilities, lending to sensitive sectors, moves in NPAs, capital, provisions, shareholdings of the authorities, value of funding in India and abroad, operating and profitability indicators, the total investments made inside the fairness share, units of mutual budget, bonds, debentures, aggregate advances towards stocks and so on.

Misaligned mind-set: The hello tech surroundings needs for changes but employee maintains withstand for the trade and they're unable to adapt to changing surroundings and their work is some distance beneath the satisfactory degree in recognize of recent technology.

Deregulation: deregulation in guidelines, norms, and liberalized rules and decontrol interest fee all this invite a large quantity of competitor within the banking enterprise.

Strategic options to cope with the challenges

The banking environment is rapidly changing and new rules are emerging. Various barriers and challenges are coming in their way of development. So there is need of proper strategies to deal

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with it. In this fast changing environment an optimum blend of technology and traditional service will be a helpful strategy. Various strategies have been taken by the Indian banks to cope with the challenges. Some of them are:

• Implementation of advanced technology and proper training to employees.

• Proper management of risk, and high growth rates.

• Insurance of transparency, safety, security and reliable customer service and satisfaction.

• Suitable measures to reduce NPAs

• Better human resource management, motivation of employee for acceptance of changes.

• Innovation in service to capture customer attention.

• Improvement in assets quality to strengthened the balance sheet.

• Proper checks for frauds, loss making branches and suitable measures/punishment to eradicate it.

• Awareness regarding all the agreement, facility, opportunity in favour of Indian banks.

Conclusion

The banking Sector is noticeably changing however it isn't sufficient it requires greater adjustments in the future. Banks affords traditional in addition to advanced facilities like RTGS, Demat for the shareholders, E-cheques, ETF, ECS, E-banking and M-banking and so on. Indian financial institution is one of the maximum essential monetary sectors for financial planning. The banking zone trying to continuously provide higher offerings and extra facilities to clients and as a result it results in the growth in opposition amongst the banks. Banks provide its provider to rural area additionally. With the new possibility and centers financial institution is also uncovered to the threat with avenues generation. So this advancement of technology with deregulation could convey banks to solvency. So consequently want is felt to completely tackle this disastrous and challenges with right method.

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