

A STUDY ON CHALLENGES OF INDIAN BANKING SECTOR AND IMPACT OF INNOVATION

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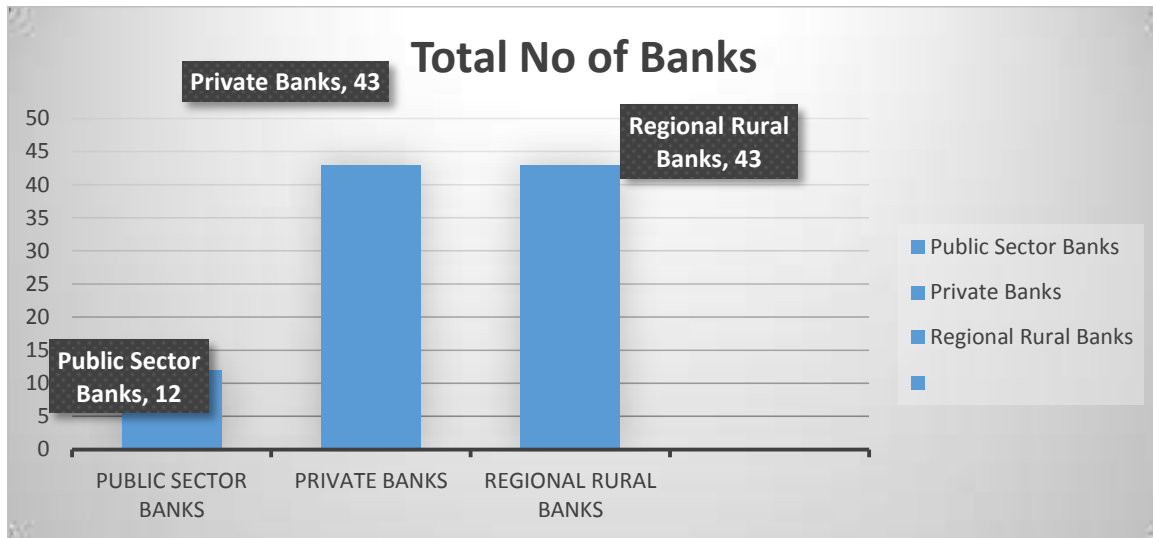
Abstract: In today's era no one can deny the importance of the banking sector. The position Indian banking system has achieved has a long journey. In India, banking sector is considered as core of financial sector. Banks are provider of financial services to the customers. It has been observed that Indian banking sector has faced so many challenges and changes due to different reason whether it is nationalization or digitalization of banking services. This paper aims to understand the challenges of banking sector in India and impact of different innovation such as ATM, UPI, Net banking, etc in banking industry.

Introduction: Economic stability is primarily concern for every country and without adequate banking system achieving economic stability is not feasible. Banking system provide different financial services major services include accepting deposits of customers, providing loans of different types, providing financial services etc. Banks in many sense is different from other financial organization as it can create wealth by financial transection where other organization are not allowed to do so. There were many changes Indian banking system went through before nationalization and post nationalization there were huge changes and in the year 1990 when internet was not very familiar to Indians it brought challenges and benefits for the banks as well as for the customers. Information Technology did not only influence IT sector but also banking sectors to big extents that can be highly observed by as in 2022 India ranked as no 1 country in terms of using digital payments with payment of 89.5 million and it is greater than the combine figure of next 4 countries.

History of banking in India:

History of banking in India is has long history but development that took place in last few decades had never been before. The establishment of first bank in India took place in year 1770 with the name "Bank of Hindustan" but this bank saw the failure and stopped its operation in year 1832. Before independence of India approximately over 600 plus banks registered themselves but only few banks over 600 banks was able to survive in changing scenario. The biggest step taken by government of India after independence was nationalization of major banks under "The Banking Regulation Act of 1949". There are two type of banking system in India first one is "Scheduled" and second one is "Non-scheduled". After nationalization of banks the major step by government of India was "Liberalization" which started in year 1990 and which is still in practice. Nationalization of Indian banks

helped banking industry to reach to heights. Currently as of 1st March 2023 there are 12 Public sector banks, 43 Banks are regional rural banks and 21 Private banks.



Banking sector is one of the financial sector which play vital role in countries financial growth. Thus it become crucial for every country to have developed banking industry. In India there are different banks and their branches are spread all over places or different part of cities. In India banks (Private Banks) practice operations under liberalization policies of Reserve bank of India. Banking sector get involve with activities such as deposit of money under different scheme, type of account or policies which leads to the lending and earning profit in the form of interest. Banks helps to connect customer who need loans from banks and those who have surplus money. There are so many banks active in India but definitely banks like HDFC, SBI, ICICI and AXIS are few banks that can be considered as big player in banking sector these banks majorly concentrate on retail industry.

1.3 Reserve Bank of India:

Reserve Bank of India or commonly known as RBI is top authority in banking sector its role is to regularize banks. Reserve Bank of India is governed by Finance ministry (Government of India) . Reserve bank of India's major work is to make supply and control Indian rupees and ensure smooth flow of Indian currency. RBI got nationalized in year 1949 after nationalization of RBI its completely governed by government of India with the help of Ministry of finance. It is responsible for all the monetary policy of banks all the banks are abide by the policies and regulations dictated by Reserve Bank of India.

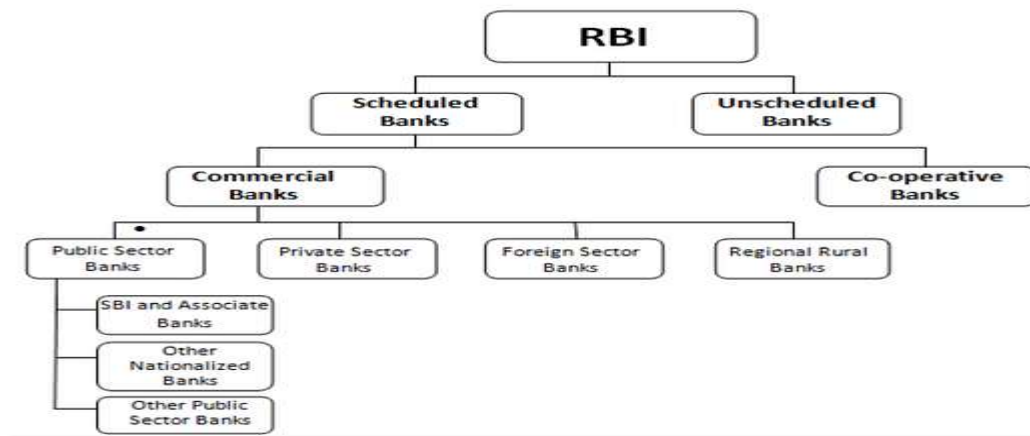


Fig 1.a : Structure of banking in India

RBI is also responsible for money management of Center government. The major function of RBI includes:

- Foreign currency reserves
- Distribution of Note
- Regulation of credit
- Development
- Money regulation
- Policy Making
- Credit regulation
- Etc.

Reserve Bank of India is sometimes referring as bankers bank as different commercial bank are customer or account holder in RBI.

Keywords: UPI, Net Banking, Liberalization, nationalization, digitalization, Reserve bank of India

Literature Review:

It was emphasised by Arora (2003) how important bank reform is. Technology plays a significant role in streamlining banking sector activities, and the influence of technology adoption has led to the launch of new products and services by several Indian banks.

In their study, Ayachit M. (2012) described how ICT was used to render the whole banking service more customer-centric. The research also revealed how new technology is being used in a few particular banks. This paper outlined the various obstacles that the banking industry is facing as a result of ICT, including the possibility that automation will result in job losses, a variety of biometrics-related problems, the voice revolution, security concerns, and a lack of digital literacy in rural areas. It also offered some solutions to these obstacles, including effective communication, providing high-quality products, and multifactor authentication, among others.

In their study work, Goyal K(2012) attempted to pinpoint the overall attitudes, difficulties, and possibilities facing the Indian banking business. On the basis of the information they gathered, they disclosed that the financial sector's main difficulties and possibilities were rural markets, HR policies, satisfaction with clients, competitiveness, , retention, global banking and ethical consideration.

Chavda Viral(2017) as per his study The Indian banking industry is expanding rapidly, and so has its customer base. Many factors, including political backing for banking sector advances, new inventions, and new value-added services provided by the bank, contributed to the expansion of the Indian banking system. Following these innovations, Indian financial sectors are now offering improved services.

Regarding the change of Indian banking, In his study Mohan (2003) stated that if Indian banks are to compete internationally, the time is now for them to implement solid and rigorous risk management practises.

Bhai Lakshmi (2018) outlined the potential & difficulties that the Indian E-banking market faces in his study . In contrast to the unexplored rural markets, many channels, excellent client service, and rising users of the internet, she addressed the significant issues encountered by the banks , including client fulfilment, privacy risk, handling technology, security risk, and Hacking. In order to highlight the difficulties and potential of e-banking in India, the author examined secondary data.

Anita & Nidhi Garg(2018) Their study highlights the numerous difficulties and opportunities facing the banking industry. Opportunities provided fresh paths for the banking industry, whilst challenges highlighted the biggest dangers and issues. It will assist the banking industry in adapting to the competitive environment. There have been numerous advancements in banking, such as the ATM, debit cards, and net banking, but we still require additional channels to address issues and take advantage of possibilities. Due to these issues, the Indian banking sector is experiencing a significant shift in order to provide better services to their customers.

Objective of Study:

Explain the changes occurred in banking sector in till current times.

To identify the challenges that banking sectors are facing.

To study impact the innovation on banks and its customers.

Methodology of study: Research methodology is the term used to denote the procedure used to do research. It describes the purpose of the study, the data gathering techniques, and the analytical tools that were employed. The research's nature is descriptive since it explains the current circumstances and distinctive elements of the investigation. It aids in reducing prejudice and raises the trustworthiness of data used in study. This research article makes use of secondary data. Information is gathered from a variety of sources, including journals, magazines, research papers, published books, websites, and databases.

Innovation and its Impact in Indian Banking sector:

Digital Payments: Government of India has vision for digital India and banking sector is not untouched. After demonetization there is great influence observed towards digital payment and after pandemic it became so common. Where Government is promoting digital transaction customers are also feeling benefited by these services. As per the reports of RBI and NPCI (2023) there was 8,840 crore transactions in Financial Year 2021-22 which got increased in year 2022-23. When we say digital transaction it includes many payment modes such as, BHIM UPI, National Electronic Toll Collection commonly known as NETC, IMPS, credit cards, NACH etc.

According to the report of Ministry of Electronics & IT (Reports include data till 31st Dec 2022)

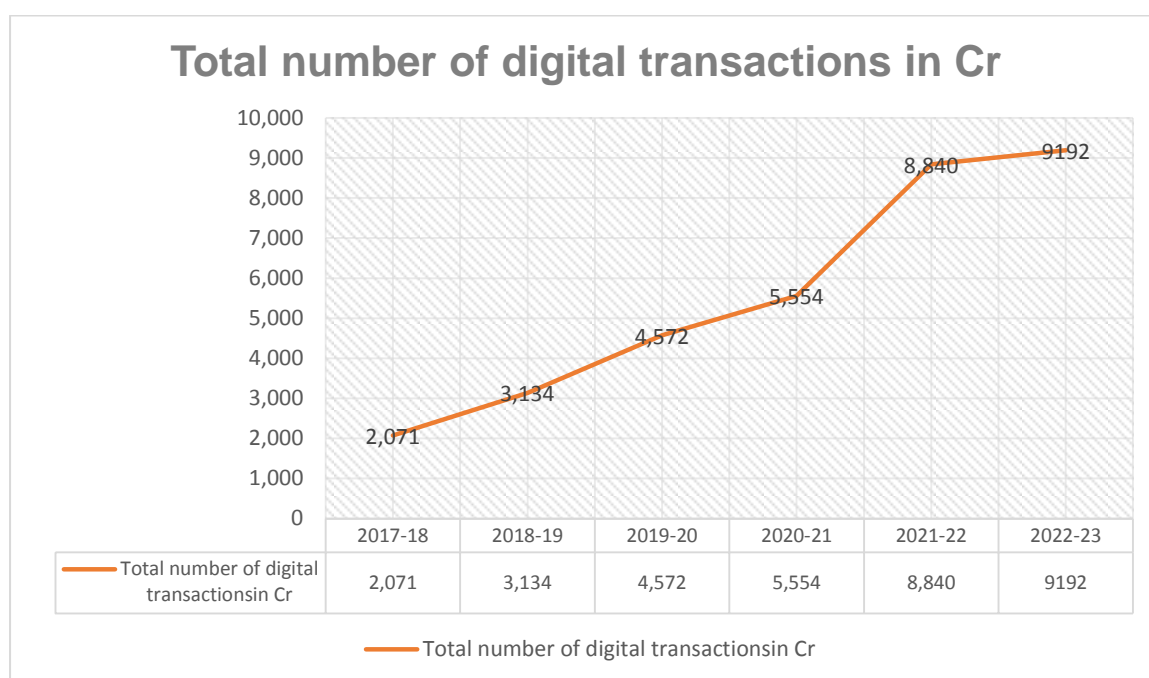


Figure 1: Last Five year no digital transaction

Interpretation: According to the report published by PIB Delhi (2023) with the reference of RBI and NPCI (2023) in the FY 2017-18 no of digital transaction was 2,071 Cr, where in FY 2018-19 it got increased and there were 3,134 Cr. Transactions, in FY 2019-2020 it was 4,572 Cr and in FY 2020-21 no of digital transactions were 5,554 Cr. In FY 2021-22 it was 8,840 and in FY 2022-23 it was 9,192*. This figure shows significant increase in digital transactions every year and as it has support of government as well as customer it is assumed that in future also numbers will keep increasing.

Credit Cards: Credit card can be defined as credit facility that different banks provide to perform different financial transaction within a specific limit determined by banks. In India credit card came to existence in year 1961 known as Diners Club credit card. Later Central Bank of India in year 1980 had issued their first credit card. Approximately 78 banks including private banks, cooperative banks, foreign banks, etc. are providing credit card facility to the customers. Article published by Forbes (2023) with the reference of RBI report

in year 2023(April) India had 86 million credit card which was significantly high of 15 percent as compared to previous year with the no of active credit i.e. 75 million and this can be assumed that up to year 2024 this no can even hit the magical figure of 100 million credit cards.

Automated Teller Machine: ATM are the machine used for self-service transactions which allow you to perform financial transactions such as checking bank balance, withdrawal of money deposit etc. In year 1987, HSBC bank installed first ATM in Mumbai location within a decade no of ATM machines reached to the count of 1500. As per the report of RBI (2021) no of ATM machines in India reached to the count of 2.13 lacks up to September 2023.

Internet Banking: In year 1998 , ICICI bank started internet banking services in India that soon become one of the most popular medium for financial transactions as it helps to transfer immediate fund transfer across India . Its 24X7 availability for fund transfer made it a convenient choice for financial transaction. As per Government of India website, cashless India defines Internet banking as an electronic payment method use to conduct financial transactions through the help of institutional websites. It has listed following as online financial transactions:

- National Electronic Fund Transfer
- Real Time Gross Settlement
- Electronic Clearing System
- Immediate Payment Service

Dematerialized Account: Dematerialized Account or popularly known as DEMAT account it is digital platform helps user to hold securities. Usually DEMAT account comes with trading account by which account holder can buy or sell shares for an example HDFC bank. According to report of CDSL and NSDL in India currently no of active DEMAT account reached to the count of 123.50 million.

Challenges faced by Indian Banking Sector:

Awareness : There is limited awareness about banking activities in the countryside of India. People are not knowledgeable of the technique used by the banks. They are somewhat familiar with the products and solutions that banks provide. Due of such, the majority of consumers are unable to utilise the benefits provided by these banks, which has grown into a significant issue for the rural banking industry.

Cyber Crimes : Even after so much efforts by the Ministry of Home Affairs still online transaction can not be consider as 100% safe to use. Hacking, Theft of password etc. can be still consider as challenge for this sector.

Competition from other players in market: In today's competitive marketplace, every firm must provide their customers a variety of high-quality products and services to remain viable. The banking industry also saw fierce competition from other financial firms who offer their services under simpler regulations than the banks do. Banks now a days facing competition not only from other banks but also from other financial sectors. One of the big source of income for these banks were loans but now different player such as PhonePe, Google Pay etc.

those who are not who are not banks are giving tough competition to banking sectors by providing range of financial services with nominal fee.

Lack of Infrastructure: Many rural communities lack the necessary infrastructure for financial organisations. There is no suitable location for banks to operate, nor are there any additional resources or infrastructure required for the financial system to run properly. Due to limited electrical supplies, banking transactions could not be conducted entirely digitally in many areas. And as a result, these issues become obstacles for banking activities.

Findings:

- By using e-banking. Banks can save operating costs, access to new locations, and excellent client relationships.
- India came first with maximum digital transaction with approx. 89 million transactions in year 2022 that help government to keep the track of money movement.
- According to a Forbes article from the year 2023 that cited an RBI report, as of April 2023, India had 86 million credit cards, a significant increase of 15% over the previous year's total of 75 million active credit accounts. It is reasonable to assume that by the end of the year 2024, this number may even reach the mythical 100 million credit card mark.
- Innovations such as credit cards, ATM, Internet banking proved to be successful to give service satisfactions to the customers.
- According to RBI and NPCI reports from 2023, there were 8,840 crore transactions in the fiscal year 2021–22; this number grew in 2022–2023. Digital transformation refers to a variety of payment methods, including BHIM UPI, NETC (National Electronic Toll Collection), IMPS, credit cards, NACH, and others.

Conclusion: This study comes to the conclusion that practically all bank categories are undergoing transition. This shift will make it easier to deal with the banks new economic and financial policies. Particularly in the emerging private sector and foreign institutions, IT is playing a critical role in the industry-wide, radical developments. The commercial banks dominate the market, while our public sector banks continue to fall behind in terms of different financial metrics. The Indian banking sector is one of the most growing sector now a days emphasizes the multiple challenges and possibilities banking industry faces. While challenges exposed large risks and problems, opportunities opened up new routes for the banking sector. The banking sector will benefit from its help in adjusting to the context of competition. Numerous innovations in banking, such the ATM, debit cards, and online banking, have been made, but we still need more avenues to handle problems and seize opportunities. Due to these problems, the Indian banking industry is undergoing a considerable change in order to better serve its clients.

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