IJFANS INTERNATIONAL JOURNAL OF FOOD AND NUTRITIONAL SCIENCES

ISSN PRINT 2319 1775 Online 2320 7876

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Challenges of Commercial Banks In India : A Bird Eye View

Dr. Srinias R. Nainoor

Assistant Professor of Commerce

Government First Grade College Kalagi

Dist: Kalaburagi Karnataka

A nation's economic improvement depends heavily on banks. The function that banks have traditionally performed inside the economics of the kingdom is big. they've a full-size effect on how the economy and exchange grow. They serve now not simply as the state's wealthy custodians however additionally as its resources, which might be vital to a country's capability to flourish economically. industrial banks' number one responsibility is to provide the majority and commercial enterprise with financial services that sell social and economic stability as well as consistent monetary boom. The state bank of India (SBI) and its associates, nationalized banks, overseas banks, different scheduled industrial banks, nearby rural banks, and non-scheduled business banks are all taken into consideration to be commercial banks in India. more than 50,000 business banks have places national, and there are about 8,000 local rural banks that serve 280 districts. Small-scale agencies can occasionally obtain medium-time period economic assist from industrial banks further to brief-term loans. A kingdom's financial improvement depends heavily on banks. "They pool the dormant financial savings of people and offer avenues for funding. moreover, they devise clean call for deposits thru lending and buying funding equipment. The underlying facts serve as the groundwork for a have a look at exploring the function of commercial banks in fostering economic increase. the principle awareness of this studies is to assess and analyse the impact of commercial banks on the development of India's economic system. The study also illustrates how credit score and loans impact India's GDP and, in turn, its charge of monetary growth.

Key words: Nationalized banks, public, Rural Bank, Investment.

Introduction;

A Commercial banks is a type of financial institution that offers services inclusive of accepting deposits, lending loans, and investing belongings. The consumer's short-time period and long-time period desires are met by means of a large variety of formal institutional companies, which include cooperative banks, local rural banks, scheduled commercial banks, non-banking

IJFANS
International Journal of
Food And Nutritional Sciences
Official Publication of International Association of Food and Nutrition Scientists

ISSN PRINT 2319 1775 Online 2320 7876
 UGC CARE Listed (Group -I) Journal Volume 14, Iss 5, 2025

monetary institutions, and self-assist groups (SHGs), among others. If a country's banking machine is functional, efficient, and conservative, industrial banks play a tremendous and energetic element in its monetary improvement. Agrarian India is a nation. the foundation of each state's economy, which include India, is agriculture. Public and personal banks are currently actively engaged in numerous manufacturing and agribusiness-associated groups. The banking zone's characteristic has gone through fantastic transformation due to the liberalization, privatization, and globalization (LPG) regulations. due to the fact that Independence, the operations of business banks in India have experienced rapid expansion. both territorial and practical ideas exist. expansion of the financial institution's operations. traditional and conservative banks have emerged from their shells to take at the issues of deliberate economic growth. business banks in India have these days begun to attention on non-conventional industries. only via looking returned at the position of industrial banks earlier than nationalisation is it feasible to benefit a better draw close of the ramifications of financing the nonconventional area with the aid of business banks. before nationalisation, there has been banking in India. "industrial banks are entities that commonly take delivery of deposits from clients and make bigger loans. In India, these institutions are regulated under the Banking law Act of 1949 and are referred to as commercial banks. industrial banks in India may be categorized as scheduled or unscheduled based on certain criteria." in line with the Reserve Banks of India Act of 1934, "A Scheduled financial institution is that financial institution which has been blanketed inside the 2d time table of the Reserve financial institution," the Banking law Act (BR Act), 1949 states in phase 5(c) that "a banking agency is a organisation which transacts the enterprise of banking in India." A commercial bank is a sort of economic organization that handles all transactions regarding public cash deposits and withdrawals, lending cash for investments, and different comparable activities. those banks are profit-pushed entities that function solely to generate economic profits. Lending and borrowing are a business bank's major traits. The financial institution accepts deposits and disburses budget to diverse projects so that hobby (profit) may be earned. The borrowing charge is the hobby rate that a financial institution fees its depositors, while the lending rate is the interest charge at which a bank extends credit score

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Methodology

A compilation of secondary research on the Indian banking industry, with particular attention to the Indian environment, is this study. To finish this, several reports on this subject have been taken into consideration, annual reports, numerous books, journals, and periodicals have been reviewed, and online searches have also been conducted.

Structure of the Organised Banking Sector in India

The Reserve Bank of India began operations on April 1, 1935. India's banks are divided into various categories. Every group has distinct benefits and advantages, as well as specific target markets and clientele, as well as operational constraints in India. The Reserve Bank of India, the country's regulatory central bank, keeps a close watch on the banking sector in India. Cooperative banks and commercial banks make up most of the banking sector.

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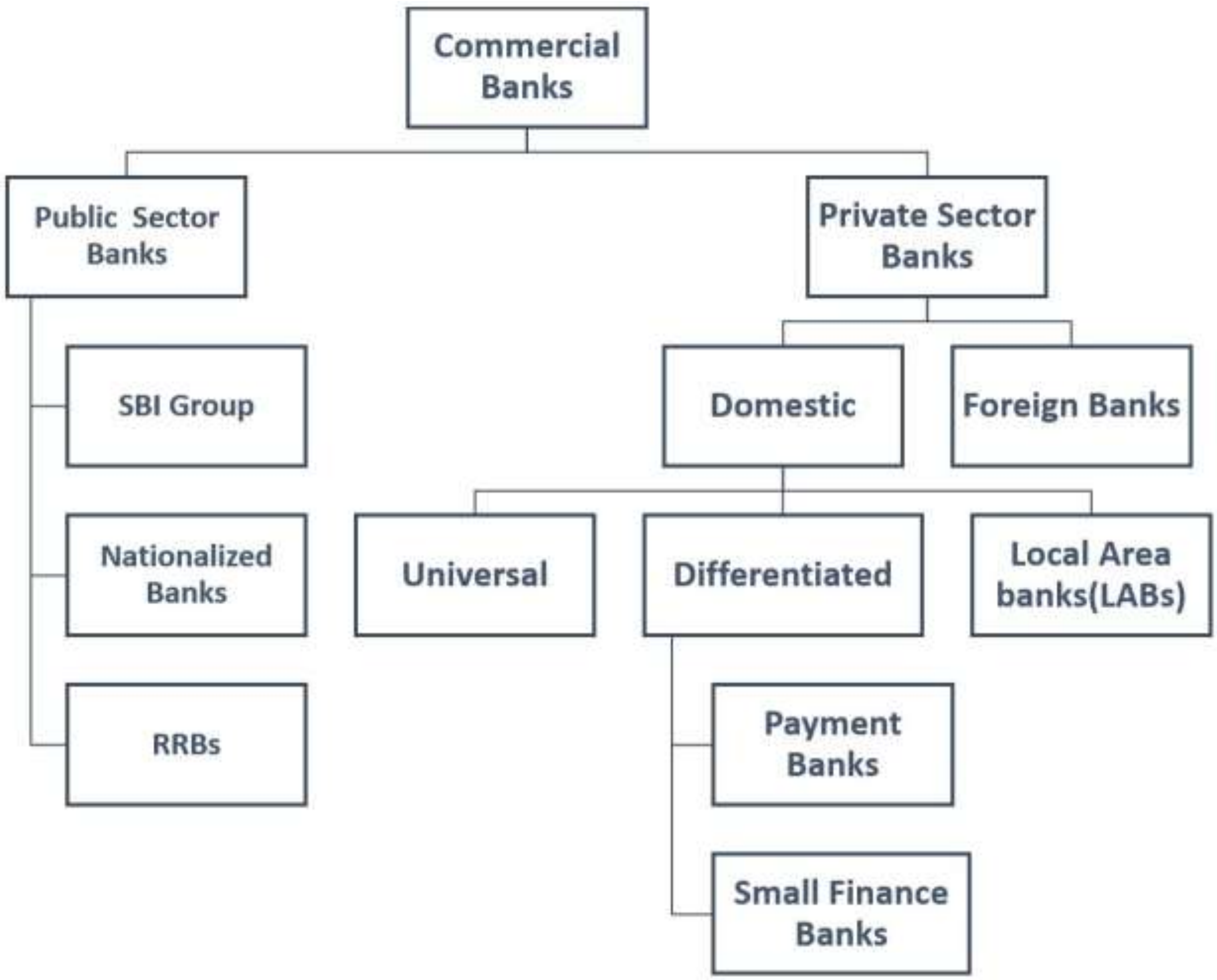

Classification of Banks in India

1) The RBI The Reserve Bank of India was established on April1935 as the Central Bank of India and nationalized on 1st January, 1949. RBI regulates monitors and controls the financial system in India.
2) Commercial Banks Commercial Bank acts as an integral part of the financial sector. Commercial banks mobilize the savings of the customers.

Commercial Banks are divided into two main categories:-

ISSN PRINT 2319 1775 Online 2320 7876
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a.) Scheduled Banks: Scheduled banks are those which are included in the Second Schedule of Banking Regulation Act, 1965. These banks have paid–up capital and reserves of not less than Rs. 5 Lakhs. Schedule Banks are further divided into:-

(i) Public Sector Banks

(ii) Private Sector Banks

b.) Non-scheduled Banks Non-scheduled banks are those which are not included in the Second Schedule of Banking Regulation Act, 1965.

3) Public Sector Banks Public sector banks are those banks whose banking business is conducted and owned by the Government. Public Sector Banks are subcategorized into three divisions:-

State Bank of India & its Associates

Nationalized Banks 14 banks were nationalized by the Government of India in July 1969. Later on in April1980, six more banks were nationalize

Regional Rural Banks RRB's were set up in 1975 on the recommendation of M.Narasimham under Regional Rural Banks Act, 1976. The main objectives are to provide loan facilities to small and marginal farmers.

4) Private Sector Banks Private sector bank came into existence to bring about competition and to increase productivity in banking sector. It was under private ownership. Old private banks New private banks

5) Foreign Banks Foreign Banks are those banks which are registered or incorporated from outside India. These are owned and controlled by foreign promoters.

6) Co-operative Sector Banks A co-operative bank is those that are registered under Co-operative Societies Act. Co-operative banks are both the owner's and the customers of their bank. Co-operative banks generally provide banking and financial services to their members like loans, deposits etc. These banks Co-operative banks are collective efforts of:- State Cooperative banks Central co-operative banks Primary Agricultural credit Societies Land Development Banks State land Development Banks

7) Development Banks Development banks provide credit for development and promotion of Industries. These are special industrial financing institutions.

Industrial Finance Corporation of India (IFCI)

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National Bank for Agriculture and Rural Development (NABARD)

Industrial Investment Bank of India (IIBI)

Small Industries Development Bank of India (SIDBI)

Industrial Development of India (IDBI)

Export-Import Bank of India (EXIM)

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.

7. **Mobile Banking**: Customers conduct a sequence of financial transactions through use of a mobile phone

8. **Internet Banking**: Also known as E-Banking or online banking. Internet banking use internet for buying, making payment delivery of banking products and services.

9. **Credit Ca**rd: In debit card bank pays on behalf of the card holder and later on cardholder has to pay the dues with some interest.

10**. Debit Card**: Debit card cardholder uses it and pays immediately from his saving account.

Challenges in banking Sectors

Asset quality: Loans taken are not repaid back by the borrower are bad loans or NPAs (Non reforming assets). These high levels of NPAs represent a biggest risk to India's banks. To tackle this problem, various options are available like setting up of Lok Adalats for recovering smaller loans, Reducing the existing NPAs through proper measures, increasing Debt Recovery

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 UGC CARE Listed (Group -I) Journal Volume 14, Iss 5, 2025

Tribunals, Complete ban on generalized loan waivers, setting up of Asset Reconstruction Fund (ARF) as recommended by the NC (1991) and to reiterated in its second report (1998).

Employee: Due to innovation banks employee are unable to fulfill new expectation which leads to detachment and Replacement of elder, experienced employee of Public-sector banks by young and inexperienced employee by the retirement schemes and it affects the performance of banks . But detachment leads to loss of valuable customer relationships. So the bank industry is concerned about retention of employees. "The absence of middle management could lead to adverse impact on banks' decision making process as this segment of officers played a critical role in translating the top management's strategy into workable action plans," the deputy governor said.

Technology: In order to survive in these competitive environment there is need of advanced technology as it provide convenience to customers by offering E-banking, cost effective service, and reduced transaction time ,by the use of effective technology but public sector bank is only 80 pc computerized and are using traditional methods of operation in comparison of private and foreign banks. So in order to survive there is need of complete up gradation of technology.

Loss making branches and overstaffing: Loss making branches and overstaffing is also one of the reason for inefficiency of Indian banks.

Innovative methods: Innovation in marketing technique is missing in Indian public sector banks which provide competitive edge over foreign banks

Frauds committed by insiders: Nowadays fraud is very common in every Indian bank, suitable punishment recommended in order to win the customers faith.

Poor Asset Quality of public sector banks: Public sector banks established with aim of social work but it should also concentrate on asset quality and earnings.

Indian Consumer: With changing profiles of consumer in terms of income levels and cultural shifts and to gain edge over competitor there is need for bank to become customers centric. With more demanding consumer there is need to offer broad range of services through multiple delivery channels. As in Indian banking system the biggest opportunity is the Indian consumer.

Capital adequacy: One of the biggest challenges for bank is fall in capital adequacy ratio means capital owned by bank. In such cases bank has to borrow money or to use depositors' money, which lead to fall in CAR (often called as CRAR or Capital to Risk Assets Ratio). If banks fail to

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meet the minimum capital requirement set by RBI it will lead to serious issue. Intense Competition: As low entry barrier allows the foreign banks and private banks to set up their branches or subsidiaries in India leads to intense competition to Indian banks.

Financial Inclusion: The committee on financial Inclusion has defined it as, "Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty." "The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

Social and Ethical Aspects: Banks are also supposed to fulfill the social obligation, apart from profit maximization. Social banking involves concern for social, environmental, and ethical agendas. They invest money for good cause of society.

Global banking: Globalization leads to competition with the global players/ foreign banks. These represent a major challenge for the Indian banks. These foreign banks are large in size, technically advanced and having presence in global market, which gives tough competition to Indian bankers.

Rural Market: This working group concluded that the existing agencies, even after necessary restructuring and modification , were unable to meet varied and growing needs of rural credit and on these major premise, recommended establishment of regional rural banks. The working groups envisaged the new institution as one which "combines the local feel and familiarity with rural problems which cooperatives posses and the degree of business organisation, ability to mobilize deposits, access to central money markets and modernized outlook which the commercial banks have"

Management of Risks: Various threats are also associated with globalization and liberalization. Bankruptcy of foreign banks is very common this day. So management of such risk is very essential. Al-Tamimi and Al-Mazrooei (2007) examined the risk management practices and techniques in dealing with different types of risk. Moreover, they compared risk management

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 UGC CARE Listed (Group -I) Journal Volume 14, Iss 5, 2025

practices between the two sets of banks. The study found the three most important types of risk i.e. commercial banks foreign exchange risk, followed by credit risk, and operating risk.

High Growth rate: Growth of banking industry led to accumulation of non-performing assets which lead to high transaction cost of carrying NPA and it pull down the efficiency of Indian banks.

Market Discipline and Transparency: According to Fernando (2011) transparency and disclosure norms as part of internationally accepted corporate governance practices are assuming greater importance in the emerging environment. Banks are expected to be more responsive and accountable to the investors. Banks have to disclose in their balance sheets a plethora of information on the maturity profiles of assets and liabilities, lending to sensitive sectors, movements in NPAs, capital, provisions, shareholdings of the government, value of investment in India and abroad, operating and profitability indicators, the total investments made in the equity share, units of mutual funds, bonds, debentures, aggregate advances against shares and so on.

Misaligned mindset: The hi tech environment demands for changes but employee continues resist for the change and they are unable to adapt to changing environment and their work is far below the satisfactory level in respect of latest technology.

Deregulation: deregulation in rules, norms, and liberalized policies and decontrol interest rate all this invite a large number of competitor in the banking industry.

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 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:

1. Implementation of advanced technology and proper training to employees.
2. Proper management of risk, and high growth rates.
3. Insurance of transparency, safety, security and reliable customer service and satisfaction.
4. Suitable measures to reduce NPAs

ISSN PRINT 2319 1775 Online 2320 7876

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5. Better human resource management, motivation of employee for acceptance of changes.
6. Innovation in service to capture customer attention.
7. Improvement in assets quality to strengthened the balance sheet.
8. Proper checks for frauds, loss making branches and suitable measures/punishment to eradicate it.
9. Awareness regarding all the agreement, facility, opportunity in favour of Indian banks.

Conclusion

The banking industry is tremendously changing but it is not sufficient it requires more changes in the future. Banks provides traditional as well as advanced facilities like RTGS, Demat for the shareholders, E-cheques, ETF, ECS, E-banking and M-banking etc. Indian bank is one of the most important financial sectors for financial planning. The banking sector trying to continuously offer better services and more facilities to customers and thus it leads to the increase in competition amongst the banks. Banks provide its service to rural area also. With the new opportunity and facilities bank is also exposed to the risk with avenues generation. So this advancement of technology with deregulation could bring banks to solvency. So therefore need is felt to completely tackle this disastrous and challenges with proper strategy.

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