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## INDIAN BANKING SECTOR : CHALLENGES AND SOLUTIONS

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### ABSTRACT

*A bank is financial 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 accepts 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.*

*The banking sector 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. Banking sector in India has also achieved a new height with the changing times. The use of technology has brought a revolution in the working style of the banks. Nevertheless, 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.*

### KEYWORDS

*Economic Reforms, Emerging challenges, Financial Activities, Information Technology*

### INTRODUCTION

In India banks play a vital role in the economic development of a country; their performance undertakes or determines the pace of development of economy. Mostly they engage in the money transactions including accepting deposits from the customers and lending them to the Indian banking sector, especially after arrivals of Private Banks. Some banks established an outstanding track record of innovation, growth and value creation. The financial performance of banking sector always puts an impact on the performance of the economy. The growth of banks mainly depends on its conventional business services like deposits and loans. The expenditure made by the banks either in borrowing funds or acquiring assets should be cautiously done. The variables like growth, profitability and non-performing assets are used to compare the performance of the banks. The recent global financial crisis has triggered fall of many economies, contributed by financial losses and large non performance assets in banking sector.

The Indian financial system comprising commercial banks, the financial



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institutions and capital markets, has undergone a very rapid transformation. The committee on financial system, well known as the Narasimham Committee was set up in 1991, to recommend measures for bringing necessary reforms in the financial sector. The first Narasimham Committee found the following distortions in Indian commercial banking:

- Deterioration in the quality of the loan portfolio because of fixation of targets for specific sector lending.
- Inadequate attention to quantitative aspects of lending.
- Improper loan appraisal of credit applications.
- No post-credit supervision and monitoring.
- Growth of overdue loans and consequent erosion of profitability.

### OBJECTIVES OF THE RESEARCH STUDY

The present research study is carried out with the following objectives in view:

1. To study the structure of Indian Banking Sector.
2. To study the challenges before the Indian Banking Sector.
3. To suggest some measures for the challenges of Indian Banking Sector.

### HYPOTHESIS OF RESEARCH STUDY

The Hypothesis of present research study is as under.

1. Day by day adoptions of modern technology in Indian Banking sector are increasing.
2. Due to adoption of new technology the speed of transactions and profitability of Indian Banking Sector are increased.

### RESEARCH METHODOLOGY

To achieve the above stated objectives, the secondary data was used and Desk Research Method was basically adopted. The secondary data that are mainly used are published in annual reports of various banks and survey reports of leading business magazines. The secondary data was also used from various reference books related to Banking, Finance, Commerce, Management and Economics. For the said research study the data pertaining to the above objectives was collected and reviewed the literature on the topic concerned. The literature was thus collected by visiting various libraries. The Secondary data is also collected from various websites.

### CHALLENGES BEFORE INDIAN BANKING SECTOR IN INDIA

The Indian banking sector are facing many challenges these are as under:

1. **High level of Net Performing Assets** : one of the challenges faced by the banking sector today is the high level of Net Performing Assets.
2. **Loss making branches and overstaffing** : Another challenges is the very large number of loss making branches overstaffed and the archaic methods of operations. All these factors have affected the efficiency of public sector banks negatively.
3. **Culture of blackmailing in public sector banks** : Another major area, which



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prevails in most of the public sector banks and adversely affects the efficiency of the employees. The Central Vigilance Commission has said no action to be taken on anonymous/pseudonymous petition is a measure, which would give confidence to the honest people in the banking sector. Central Vigilance Commission should ensure that the honest officers do not become victims of blackmail.

4. **Frauds committed by insiders** : Many a time, the insiders commit the frauds. Central Vigilance Commission recommends that high punishment should be given to win back the customers back and to create more faith in them.
5. **Technology** : The public sector banks are not using technology aggressively. Only 80 percent of the business of all public sector banks has been computerized whereas new private sector banks and foreign banks have 100 percent of their business computerized and they are providing e-banking services. Public sector banks should now aim at fuller computerization not only branch wise but bank-wise too. Bank wise computerization with the capacity to focus on the customers and develop a culture of customer services is perhaps needed most in today's for facing the future in it.
6. **Innovative methods** : The innovative methods are also one of the important challenge before Indian Banking sector. The foreign banks and new private sector banks are using innovative marketing methods but our public sector banks are lacking.
7. **Poor Asset Quality of public sector banks** : The poor asset quality is major drawback of Indian Banking Sector. Public sector banks should concentrate on ensuring better asset quality and earnings.
8. **Rural Market** : Banking in India is generally fairly mature in terms of supply, product range and reach, even through reach in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region.
9. **Management of Risks** : The growing 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.
10. **Global Banking** : It is practically and fundamentally impossible for any nation to exclude itself from world economy. Therefore, for sustainable development, one has to adopt integration process in the form of liberalization and globalization as India spread the red carpet for foreign firms in 1991. The impact of globalization becomes challenges for the domestic enterprises as they are bound to compete with global players.
11. **Financial Inclusion** : Financial inclusion has become a necessity in today's business environment. Whatever is produced by business houses, that has to be under the check 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 attention to improve their



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economic condition.

12. **Employees' Retention** : The banking industry has transformed rapidly in the last ten years, shifting from transactional and customer service-oriented to an increasingly aggressive environment, where competition for revenue is on top priority. 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. The retail banking industry is concerned about employee retention from all levels from tellers to executives to customer service representatives because competition is always moving in to hire them away.

The competition to retain key employees is intense. Top-level executives and HR departments spend large amounts of time, effort, and money trying to figure out how to keep their people from leaving.

## SOLUTIONS

The Indian Banking Sector should follow the under stated measures to make themselves up to date :

1. To solve the problems before Indian Banking Sector. Different options are available which includes : i) Reducing the existing NPAs and curbing their further build-up; ii) Exploring avenues of recovering NPAs such as Lok Adalats for recovering smaller loans; iii) Increasing the number of Debt Recovery Tribunals; iv) Complete ban on generalized loan waivers; v) Setting up the Asset Reconstruction Fund (ARF) as recommended by the NC (1991) and reiterated in its second report (1998).; Reduce the recovery rate.
2. To cope up with this problem, banking sector banks should close down loss making branches and staff should be scaled down to the requirements.
3. In the emerging environment, two aspects have become important. One is the better corporate governance and the second is innovativeness and development of competitive edge in their functioning. So far as better corporate governance is concerned, what is needed is ensuring transparency in the system of decision making that leads to accountability to shareholders and stakeholders.
4. Autonomy in Human Resource Management related decisions such as deciding categorization of branches, vacancy, placements etc should be given to banks.
5. More attention towards customer expectations should be given by Banking Sector, With the increasing competition among banks, to meet customer expectations, banks should offer a broader range of deposits, investments and credit products through diverse distribution channels including upgraded branches, ATMs, telephone, Internet etc. For this purpose, banks should: i) become more customer centric, offering a wide range of products/services through multiple delivery channels; ii) become proficient in managing assets and liabilities according to risk and returns; iii) pay greater attention to efficiency including cost-reduction and increasingly fee-based income.



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6. Create a clear, simple, reality based customer-focused vision to be able to communicate its strategies to all branches of banks.
  7. Reach, set aggressive targets, recognize and reward progress, while understanding accountability and commitment.
  8. Have a passion for excellence in banking sector.
  9. Have the self-confidence to empower other and behave in a boundary less fashion.
  10. Have the capacity to develop global brains and global sensitivity and are comfortably building diverse and global teams.
  11. Have enormous energy the ability to energize and invigorate others, stimulate and relish change and not be frightened or paralyzed by it. Change is an opportunity and not a threat.
  12. Possess a mindset that drives quality, cost and speed for a competitive advantage.
  13. More and more professional should be adopted by the Indian Banking Sector

## **CONCLUSION**

The biggest challenge for banking industry is to serve the mass market of India. Companies have shifted their focus from product to customer. The better we understand our customers, the more successful we will be in meeting their needs. In order to mitigate above mentioned challenges Indian banks must cut their cost of their services. Another aspect to encounter the challenges is product differentiation. Apart from traditional banking services, Indian banks must adopt some product innovation so that they can compete in gamut of competition. Technology up gradation is an inevitable aspect to face challenges.

The level of customer awareness is significantly higher as compared to previous years. New-a-days they need internet banking, mobile banking and ATM services.

Expansion of branch size in order to increase market share is another tool to combat competitors. Therefore, Indian nationalized and private sector banks must spread their wings towards global markets as some of them have already done it. Indian banks are trustworthy brands in Indian market therefore, these banks must utilize their brand equity as it is an valuable asset fro them.

The pre and post liberalization era has witnessed various environmental changes which directly affects the aforesaid phenomena. It is evident that post liberalization era has spread new colors of growth in India, but simultaneously it has also posed some challenges.

On the basis of some important parameters of efficiency, we find that among the Indian banks, efficiency of new private sector banks is quite high, but foreign banks have even an edge over new private sector banks. Our new private sector banks are competing with foreign banks with continuous improvement in their performance. But our public sector banks should make effective, innovative policies/strategies to compete with foreign banks if they want to survive in this emerging competitive environment. The vision, values, innovations, leadership and social commitment can convert the challenges of public sector banks into opportunities.



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