



SUSTAINABILITY AND PERFORMANCES OF INDIAN BANKING INDUSTRY IN THE POST GLOBALISATION ERA

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ABSTRACT

In the phase of Liberalisation and Globalisation initiated in India in the 1990s radical changes have been brought in the landscape of Indian banking sector. India is the largest economy in the world with more than 120 crore population. Banking is the major contributor in Indian service sector which contributes half of the Indian G.D.P. Enlarged and automated banking base is essential for speeding up the socio-economic development process in India and thereby transforming it into an almost developed one.

The initiation and execution of economic reforms has made huge Indian middle class as the new and powerful customers of the banking industry. Public sector banks, private banks and foreign banks form the new gamut of players in Indian banking field. To face emerging competition and take care of new expectations of the existing and new customers, public sector banks have introduced new banking products. They expand their range of services in the forms of mortgage for financing house, auto car loans, credit cards, loan scholarship for child's education pension plan for retirement, life insurance policy etc. Existing products need to be delivered in an innovative and cost effective way. Indian banks adopt customer centric policies and customer friendly procedures. The Indian consumers provide the biggest opportunity for the banking industry. They have radically changed in terms of income levels and life style aspirations. This paper explains the changing banking scenario and analyses the challenges and opportunities of national and commercial banks.

I. Introduction

Indian banking industry provide internet banking, mobile banking and A.T.M.services besides fundamental banking services such as accepting deposits and providing loans.India is one of the top 10 economies of the world with tremendous growing potential of the banking sector.Indian banking sector is currently valued at Rs.81 trillion.By 2020 it will become the fifth largest banking industry in the world and the third largest by 2025.

Present Indian banking system is not only hassle free but tries to meet the new challenges posed by technology and other internal and external factors. It offers several facilities and opportunities to their customers such as safeguards money and valuables, provides loans, credits and payment services such as checking accounts, money orders and cashier cheques. They also offer investment and insurance products. Product innovation is adopted in terms of flexible term deposits, and convertible saving deposits. Product differentiation has been attached to debit and credit cards, nomination and Demat services.

OBJECTIVE: This paper ends to explain the changing banking scenario and to study the challenges and opportunities of national and commercial banks in this banking scenario.

II.METHODOLOGY

For writing this paper I have to rely on secondary data on Indian banking sector with special reference to Indian context. I have consulted annual reports, books, journals and periodicals.Besides this internet searching has also been done.

Changing Banking Scenario in the phase of liberalization, privatization and globalization.

Banking Industry broadly provides three types of products such as deposit, credit and customized banking services. Deposits include term deposits and demand deposits- current, savings. Credits include bill purchased and discounted, cashcredit, over draft and loans. Customized banking services include guarantee and advisory services, derivative and other treasury products, insurance and investments, para banking products etc. The basic differentiation among banks is attained through quality of services and delivery channels adopted. Apart from the generic products there have been innovations in terms and products such as the flexible term deposit, convertible savings deposit (wherein idle cash in saving accounts can be transferred to fixed deposits). Innovation made in delivery channels includes

ATM transactions, phone and internet banking. Product differentiation has been made in debit/ATM cards, credits cards, nominations and Demat services. Besides this banks provide fee-based services that bring non-interest income to the banks. Corporate fee-based services offered by banks include treasury products; cash management services; letter of credit and bank gurrantee;bill discounting ;factoring and forfeiting services; foreign exchange services; merchant banking; leasing ;credit rationing; underwriting and custodial services. Retail fee-based services include remittances and payment faculties, wealthmanagement, trading facilities and other value added services.

STRUCTURAL CHALLENGES

Post Liberalisation era has spread new colours of growth in India but simultaneously posed several challenges. There are large of banks which are sub-optimal in size and scale of operations. Alignment has to be made with global developments in banking supervision. New international capital norms require high level of sophistication in risk management, informationsystems. The painful process of restructuring lead to asset quality issues.

The multiple and concurrent challenges faced by the Indian banking sector are as follows:

Revolution of Information Technology

The increasing sophistication, flexibility, and complexity of products have made effective use of technology critical for managing risk. Right technology has to be developed and deployed optimally for making it cost effective and delivering sustainable returns to shareholders. Early adopters of technology in foreign countries enjoy competitive advantage. So managing technology is a key challenge for Indian banking. Banks have to go for mobile banking for a cluster of villages.

The government and RBI should actively support research efforts for bringing low-cost, self - service solutions/ATMs. The research institutions should widely disseminate information on technologies and products to the Indian Banking industry. With the application of ITand E-banking, the banking system of the day is heading towards virtual banking.

Knowledge society

In the current scenario of fast progressive environment knowledge and assimilation of new ideas and trends is essential for banking organizations to keep it ahead on the curve. As Indian markets become more sophisticated and integrated into the global financial markets, the banks should continuously be aware of cutting edge practices in banking internationally. For attracting and retaining people, banks should be process-driven, yet innovative, stable yet flexible and responsive to change.

Intense competition

RBI and Indian government lowered entry barriers and permitted new players to enter the market such as private banks, foreign banks and non-banking financial companies. The foreign banks can set up shop either as branches or as subsidiaries. These foreign banks and new private sector banks have spearhead high-tech revolution. In this highly competitive environment, banks should follow customer-centric policies and customer-friendly procedures for providing prompt and efficient customer services.

Employees' retention

In the last ten years, the banking industry has shifted from transactional and customer-service oriented to an increasingly aggressive environment. Here competition for revenue is given the top-most priority. The banking employees who are serving for long time become disenchanted with the industry and often resist performing up to new expectations. This diminishing employee morale leads to decreased revenue. But because of the intrinsically close ties between staff and clients, firing those employees can mean complete loss of valuable customer relationships. So these employees have to be retained because competition is always moving into hiring them away.

Financial inclusion

The banking products have to be checked from various perspectives like environmental concerns, corporate governments, social and ethical issues. Besides this, the poor people of the country should be given proper attention for improving their economic condition. For achieving greater financial inclusion, the RBI has facilitated no-frills accounts and GCCs for small deposits and credits.

Rural market

Indian banking has become fairly mature in terms of supply, product range and reach. But rich and rural India still remains a challenge for the private sector and foreign banks. Indian banks have clean, strong and transparent balance sheets relative to other banks. So for facing up-coming challenges, there is a merger of public-sector bank with the bigger private-sector banks. For example, ICICI bank Ltd merged with bank of Rajasthan Ltd. In 2010, SBI merged with the State Bank of Indore.

High transaction costs

The banking industry faces the major concern of high transaction costs of carrying non-performing assets in their books. The growth of banking industry deteriorated operational efficiency of banks and accumulation of non-performing assets in their loan portfolios.

Social and ethical aspects

The commercial banks have to face the challenge of undertaking the responsibility of bearing social and ethical issues of banking. Apart from profit maximization, the banks have to support those organizations which have social concerns.

Timely technological upgradation

Indian banks have already adopted electronic transfers, clearings, settlements for reducing translation times for facing the intense competition. They have to further absorb technology and upgrade their services.

Global Banking

Nationalized and private sector banks are bound to compete with thirty six foreign banks operating in India.

OPPORTUNITIES

In a nutshell the opportunities of Indian banking industry includes:

- A burgeoning economy
- Banking deregulation
- Increased client borrowing
- An increase in the the number of banks

- An increase in the money supply
- Low government set credit rates and
- Larger customer checking account balances.

The biggest opportunity of the Industry is the Indian consumer. Their profile has changed. Demographic shifts have occurred in terms of income levels and cultural shift has occurred in terms of lifestyle aspirations. The consumers seek to fulfil their future desires at younger age. For financing consumptions and asset creations they use an optimal combination of equity and debt. This lead to growing demand for competitive, sophisticated retail banking services. The consumer demands a wide range of products and services-a mortgage to finance his house; an auto loan for his car; a credit card for on-going purchases; a bank account; a long term investment plan for financing child's higher education; a life insurance policy and endless. This is the picture of desire of not only the consumers of India's top ten cities but of cities, towns, and villages.

There is an immense potential for market expansion. There are millions of savers and investors who still do not use a bank, another segment banks with a physical branch and at another end of the

spectrum the customers are familiar with ATMs, e-banking, and cashless economy.

Revolution of information technology has enabled Indian banks to service all customer segments with efficiency.

The adaptability of the Indian rural population to high-tech devices is one of the fastest in the world.

The developments in Indian industry, government and the integration of India with the global markets offer banks the opportunity to service cross- border needs of Indian companies and India linked needs of multinationals.

CONCLUSION

The post liberalisation era has witnessed various environmental changes which directly affect the performance and efficiency of Indian Banking Industry. This article discusses the various challenges and opportunities like High transaction costs, IT revolution, timely technological up gradation, intense competition, privacy and safety, global banking, financial inclusion. The competition from global banks and technological innovation has compelled Indian banks

to rethink their policies and strategies, diversify and upgrade themselves, cut their cost of services and adopt product differentiation.

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