BANKING INDUSTRIES IN INDIA: CHALLENGES AND OPPORTUNITIES

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ABSTRACT

The Banking sector in India has undergone a huge transition varying from traditional banking practices to the nationalization and privatization of banks. With the augmenting number of foreign banks in India, this sector has attained new height with the advancement in technology, the working style of banks have witnessed a great transformation. However, the prime feature of the banking arena, i.e. confidence of the people on the institution and trust, remains the same. The confidence of the shareholder as well as other stakeholders is the major consideration of the majority of banks. With a lot of change confronted by the banking sector for the past few years, various kind of risk factors have been viewed. This paper will throw light upon the various sentiments, challenges and opportunities for banking sector in India.

Keywords: Nationalization, Privatization, Technology, Shareholders, Stakeholders

INTRODUCTION

India stands among the top 10 economies of the world which offers a large scope of growth. Various new facts have been introduced in the last few years, such as ATM, internet and mobile banking. The fast growing technology has facilitated the banks to provide easy communication to the people. The transaction can be carried out easily via internet and mobile services.

Banks can be referred as financial services industry, which provides various services such as providing loan and accepting deposits. There are also non banking institutions which give services without meeting the legal definition of a bank. The banking system of India should be easily accessible and should have the ability to face the upcoming challenges pertaining to the technology and other factors. Ample of opportunities and facilities are offered to the customers by the banking industry other than the services such as safeguarding money and valuable, providing loans, credits and payment services banks also put forth diverse investment and insurance products.
Before the advent of the banking sector, the money lenders and individuals used to handle the financial activities. The interest rates were very high and there was a lot of insecurity of public savings. In order to eradicate all such problems pertaining to the financial activities the banking sector was established by the government.

GENERAL BANKING SCENARIO IN INDIA

These days, the banking scenario is undergoing a lot of transformation. Initially, the government of India actively participated in the economic life of the nation and a mixed economy was envisioned by the industrial policy resolution adopted by the government in 1948. The state involvement was increased in the various sectors of the economy including banking and finance.

The Reserve Bank of India was nationalized on January, 1949. Under the banking regulation act in 1949, the Reserve Bank of India was empowered to regulate, control and inspect the banks in India. The development of Indian economy prospered expeditiously by 1960’s with the rise in the Indian Banking industry. The largest commercial banks got nationalized by July 19, 1969 followed by 6 more commercial banks being nationalized by 1980. The motive behind the nationalization of the banks was that the government should be given the control of credit delivery. At one time, Indian government was controlling around 911 of the banking business of India. Later on, the Government merged new bank of India with Punjab National Bank of India in 1993.

A policy of liberalization was put forth by the Narsimha Rao Government which licensed small number of private banks in 1990. Thereafter the norms of foreign direct investment were given relaxation where all foreign investors were given voting rights.

CHALLENGES AND OPPORTUNITIES OF INDIAN BANKING INDUSTRY

Due to fragmented locations in India, the banking services are not accessible to a large number of people. The advancement of technology has raised the expectations of the people who have access to the banking services.

The banks are emphasizing on increasing the customers services and meeting their expectations especially with the foreign banks playing in the Indian market.

Various challenges and opportunities have been created for the banking sector by the existing scenario of Indian banking industry, In order to have better comprehensively. We need to have a close look on the opportunities and challenges of banking sector.
RURAL MARKET

Indian banking sector has travelled a long way in terms of supply products range and reach even in the rural areas which still remains a formidable task for the private sector and foreign bank. In comparison to other banks, Indian banks offer transparency, quality of assets and capital adequacy. To face the forthcoming challenges, inorganic growth strategies have also been adopted by some nationalized and private sector banks. The biggest example is the merging of Bank of Rajasthan with ICICI Bank to have access in the rural market as well as the market share. Similar strategies have also been implemented by the targets public sector in India, State Bank of India.

MANAGEMENT OF RISKS

Competitiveness among the banks has been elevated as a result of cut throat competition but the biggest challenge for the Indian banking industry is the current global banking scenario.

According to shrievess, challenges in risk and capital share a positive association. Nolgart (2001) focused on the merger and acquisition actively among the financial firms. Various other factors such as market liquidity, financial system stability, risk management are also given consideration.

Al Tamini and Al-Mazroore (2007), examined the practices related to risk management and techniques to deal with various types of risks. Three most important types of risk were found i.e. commercial banks foreign exchange risk, followed credit risk and operating risk.

GROWTH OF BANKING

After a close study it was found that Indian banking industry has acquired a sustained productivity growth after an initial phase of adjustment. Technological advancement is considered to be a prominent factor of the increasing growth rate. Competitive pressure in the banking industry was elevated with appearance of foreign banks which acted as technological innovators.

According to the study of Goyal and Joshi (2011), the major reason behind the merging of banks is the influence of global economy on the small and local banks, which they find difficult to cope up with merging, is used as a prominent tool by the private banks to expand their horizons. Rural market of India offers a great scope which is yet to be explored by the major banks.

GLOBAL BANKING

Domestic enterprises face a great challenge by the impact of globalization in the banking industry. Global players offer a huge competition to these domestic enterprises. There are 36 foreign banks operating in India which pose a major challenge for the private and the nationalized banks.
SOCIAL AND ETHICAL ASPECTS

Most of the banks ensure their accountability to bear with the social and ethical aspects of banking. Therefore it becomes a challenge for the commercial banks to look forward to these aspects for smooth functioning of the banks. The organization having social concerns should be strongly supported by the commercial banks.

HUMAN RESOURCES MANAGEMENT

As per the studies of Gelade and Ivery (2003), notable relationship should be found between the Human Resource Management (HRM) work climate and the performance of the organization in branch network of a retail bank.

Bartel (2004), focused on the relationship between performance of employees in the manufacturing sector and the Human Resources Management. The author extends research to the service sector by using longitudinal dataset collected through the site and visiting the branch operation of large bank. According to survey based on the responses of the bank employees attitude, a positive relationship is exhibited between branch performance and employee’s satisfaction with quality of performance, evaluation, feedback & recognition of the branch.

Employee’s Retention:- A great change has been exhibited in the banking sector for the last ten years where the environment has been completely transformed from being customer service oriented to an environment where competition for revenue becomes of foremost importance. The long working hours have completely deviated the minds and priorities of the banking employees which has resulted into decreased revenues. As the clients hold a good relationship with the employees, therefore the customers also get affected with it. Banking industry is concerned about the retention of employees from all levels because of the increasing competitiveness in this sector.

CONCLUSION

Various environmental changes have been witnessed in the pre and post liberalization era which have lightly affected the banking sector there has been a lot of development in the various aspects of the banking industry, but at the same times some major challenges have also been posed. Various challenges and opportunities have been discussed in this paper there is a lot of competitiveness among the banks these days. The global banks have also emerged as a competition for the nationalized banks. Therefore the strategic and policies of the banks need to be upgraded.

The major challenge confronted by the banking sector is to serve the masses and huge market of India. The approach of various companies is becoming product centric than being customer centric. There is an ardent need of developing a good comprehensibility with the customers, in order to become successful. Therefore, the services need to improved and cost effective. To compete with a number of upcoming banks, the nationalized banks need certain product innovations and the traditional banking services need
to be improvised. The challenges can only be faced with the help of upgrading technology. Consumer awareness has also been enhanced with the introduction of various, ATM services and mobile banking.

REFERENCES


