

A Study on Challenges and Opportunities in Indian Banking Sector**Dr. S. Praveen Kumar**

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ABSTRACT

The Indian banking system was domestically oriented at the time of nationalization in 1969. National policy objectives where the guiding force and banks were primarily involved in mobilizing domestic savings, lending funds to specific sectors of the economy and raising resources for financing public deficits. Technology in Indian banking has evolved substantially from the days of back office automation to today's online, centralized and integrated solutions. One cannot think of ATM, Internet, mobile and phone banking or call center services without the help of technology? .However, the irony is that most of those products have more of technology and less of banking. Let us look how banking has changed as a business over the last one decade. The rigorous use of IT in the banking sector started immediately after the recommendations of the Committee on Financial System (Narasimham Committee, 1991) were implemented in 1991. The Recommendations of the committee include, among others, free entry of private sector/ foreign banks. The private and foreign banks brought new technologies and rendered technology based world class quality services to customers through ATMs, credit cards and internet banking, which PSU banks, hitherto, were not even dreamed about.As banks develop their strategies for giving customers access to their accounts through various advanced services like e-banking, mobile banking and net banking, they should also regard this emerging platform as a potential catalyst for generating operational efficiencies and as a vehicle for new revenue sources. India's banking sector has made rapid strides in reforming and aligning itself to the new competitive business environment. In this article an attempt made to identify the major challenges and opportunities for the banking sector.This paper discussed the recent trend in banking scenario and its concludes the different products provided by foreign banks to Indian customers have forced the Indian banks to diversity and upgrade themselves so as to compete and survive in the market.

Key words:Indian Banking, EFT, RTGS, ATM, ECS, EDI, Challenges and Opportunities.

1. INTRODUCTION

Banking in India in the modern sense originated in the last decades of the 18th century. Among the first banks were the Bank of Hindustan, which was established in 1770 and liquidated in 1829-32, and the General Bank of India established in 1786 but failed in 1791. The largest bank, and the oldest still in existence, is the State Bank of India. It originated as the Bank of Calcutta in June 1806. In 1809, it was renamed as the Bank of Bengal. This was one of the three banks funded by a presidency government, the other two were the Bank of Bombay and the Bank of Madras. The three banks were merged in 1921 to form the Imperial Bank of India, which upon India's independence, became the State Bank of India in 1955. For many years the presidency banks had

acted as quasi-central banks, as did their successors, until the Reserve Bank of India was established in 1935, under the Reserve Bank of India Act, 1934.

The Indian banking system was domestically oriented at the time of nationalization in 1969. National policy objectives where the guiding force and banks were primarily involved in mobilizing domestic savings, lending funds to specific sectors of the economy and raising resources for financing public deficits. Technology in Indian banking has evolved substantially from the days of back office automation to today's online, centralized and integrated solutions. The private and foreign banks brought new technologies and rendered technology based world class quality services to customers through ATMs, credit cards and internet banking, which PSU banks, hitherto, were not even dreamed about. By offering world class quality services, these banks started snatching customers from PSU (Public Sector Undertaking) banks and they felt the heat and realized that if they do not follow the path of these banks, they would be thrown out from the banking scene within no time. The PSU banks also followed suit. Thus the use of technology in banking has resulted in availability of multiple delivery channels like ATMs, telebanking, internet banking, mobile banking, anywhere and anytime banking etc. Technology adoption in banks has shifted banking more of a capital intensive, fixed cost industry from a labour intensive, variable cost industry.

The Indian banking sector is broadly classified into scheduled banks and non-scheduled banks. The scheduled banks are those which are included under the 2nd Schedule of the Reserve Bank of India Act, 1934. The scheduled banks are further classified into: nationalized banks, State Bank of India and its associates, Regional (RRBs), foreign banks, and other Indian private sector banks. The term commercial banks refer to both scheduled and non-scheduled commercial banks which are regulated under the Banking Regulation Act, 1949.

2. OBJECTIVE OF THE STUDY

- To study the origin and use of the banks
- To know the recent trend in banking scenario
- To highlight the challenges and opportunities in changing banking scenario

3. METHODOLOGY

This paper is the outcome of a secondary data on Indian Banking Sector with special reference to Indian context. To complete this, annual reports, various books, journals and periodicals have been consulted, several reports on this particular area have been considered, and internet searching has also been done.

THE ORIGIN AND USE OF BANKS

The Word 'Bank' is derived from the Italian word 'Banko' signifying a bench, which was erected in the market-place, where it was customary to exchange money. The Lombard Jews were the first to practice this exchange business, the first bench having been established in Italy A.D. 808. Some authorities assert that the Lombard merchants commenced the business of money-dealing, employing bills of exchange as remittances, about the beginning of the thirteenth century. About the middle of the twelfth century it became evident, as the advantage of coined money was gradually acknowledged, that there must be some controlling power, some corporation which would undertake to keep the coins that were to bear the royal stamp up to certain standard of value; as, independently of the 'sweating' which invention may place to the credit of the ingenuity of the Lombard merchants- all coins will, by wear or abrasion, become thinner, and consequently less

valuable; and it is of the last importance, not only for the credit of a country, but for the easier regulation of commercial transactions, that the metallic currency be kept as nearly as possible up to the legal standard. Much unnecessary trouble and annoyance has been caused formerly by negligence in this respect. The gradual merging of the business of a goldsmith into a bank appears to have been the way in which banking, as we now understand the term, was introduced into England; and it was not until long after the establishment of banks in other countries-for state purposes, the regulation of the coinage, etc. that any large or similar institution was introduced into England. It is only within the last twenty years that printed cheques have been in use in that establishment. First commercial bank was Bank of Venice which was established in 1157 in Italy.

RECENT TRENDS IN BANKING

- 1. Electronic Payment Services – E -Cheques:** Now-a-days we are hearing about e-governance, e-mail, e-commerce, e-tail etc. In the same manner, a new technology is being developed in US for introduction of e-cheque, which will eventually replace the conventional paper cheque. India, as harbinger to the introduction of e-cheque, the Negotiable Instruments Act has already been amended to include; Truncated cheque and E-cheque instruments.
- 2. Real Time Gross Settlement (RTGS):** Real Time Gross Settlement system, introduced in India since March 2004, is a system through which electronics instructions can be given by banks to transfer funds from their account to the account of another bank. The RTGS system is maintained and operated by the RBI and provides a means of efficient and faster funds transfer among banks facilitating their financial operations. As the name suggests, funds transfer between banks takes place on a 'Real Time' basis. Therefore, money can reach the beneficiary instantaneously and the beneficiary's bank has the responsibility to credit the beneficiary's account within two hours.
- 3. Electronic Funds Transfer (EFT):** Electronic Funds Transfer (EFT) is a system whereby anyone who wants to make payment to another person/company etc. can approach his bank and make cash payment or give instructions/authorization to transfer funds directly from his own account to the bank account of the receiver/beneficiary. Complete details such as the receiver's name, bank account number, account type (savings or current account), bank name, city, branch name etc. should be furnished to the bank at the time of requesting for such transfers so that the amount reaches the beneficiaries' account correctly and faster. RBI is the service provider of EFT.
- 4. Electronic Clearing Service (ECS):** Electronic Clearing Service is a retail payment system that can be used to make bulk payments/receipts of a similar nature especially where each individual payment is of a repetitive nature and of relatively smaller amount. This facility is meant for companies and government departments to make/receive large volumes of payments rather than for funds transfers by individuals.
- 5. Automatic Teller Machine (ATM):** Automatic Teller Machine is the most popular devise in India, which enables the customers to withdraw their money 24 hours a day 7 days a week. It is a devise that allows customer who has an ATM card to perform routine banking transactions without interacting with a human teller. In addition to cash withdrawal, ATMs can be used for payment of utility bills, funds transfer between accounts, deposit of cheques and cash into accounts, balance enquiry etc.
- 6. Point of Sale Terminal:** Point of Sale Terminal is a computer terminal that is linked online to the computerized customer information files in a bank and magnetically encoded plastic transaction card that identifies the customer to the computer. During a transaction, the customer's account is debited and the retailer's account is credited by the computer for the amount of purchase.

7. Tele Banking: Tele Banking facilitates the customer to do entire non-cash related banking on telephone. Under this device Automatic Voice Recorder is used for simpler queries and transactions. For complicated queries and transactions, manned phone terminals are used.

8. Electronic Data Interchange (EDI): Electronic Data Interchange is the electronic exchange of business documents like purchase order, invoices, shipping notices, receiving advices etc. in a standard, computer processed, universally accepted format between trading partners. EDI can also be used to transmit financial information and payments in electronic form.

CHALLENGES AND OPPORTUNITIES TO BANKING SECTOR

As banks develop their strategies for giving customers access to their accounts through various advanced services like e-banking, mobile banking and net banking, they should also regard this emerging platform as a potential catalyst for generating operational efficiencies and as a vehicle for new revenue sources.

Banking industry's opportunities includes:

1. A growing economy,
2. Banking deregulation,
3. Increased client borrowing,
4. An increase in the number of banks,
5. An increase in the money supply,
6. Low government-set credit rates and
7. Larger customer checking account balances.

Developing countries like India, has a huge number of people who don't have access to banking services due to scattered and fragmented locations. But if we talk about those people who are availing banking services, their expectations are raising as the level of services are increasing due to the emergence of Information Technology and immense competition between the services & products provided by different banks. Since, foreign banks are playing in Indian market, the number of services offered has increased and banks have laid emphasis on meeting the customer expectations.

India's banking sector has made rapid strides in reforming and aligning itself to the new competitive business environment. The major challenges faced by banks today are as to how to cope with competitive forces and strengthen their balance sheet. Today, banks are groaning with burden of NPA's. It is rightly felt that these contaminated debts, if not recovered, will eat into the very vitals of the banks.

- **High transaction costs:** A major concern before the banking industry is the high transaction cost of carrying non-performing assets in their books. The growth led to strains in the operational efficiency of banks and the accumulation of non-performing assets (NPA's) in their loan portfolios.
- **IT revolution:** The Indian banks are subject to tremendous pressures to perform as otherwise their very survival would be at stake. The application of IT and e-banking is becoming the order of the day with the banking system heading towards virtual banking.
- **Timely technological up gradation:** Already electronic transfers, clearings, settlements have reduced translation times. To face competition it is necessary for banks to absorb the technology and upgrade their services.

- **Intense Competition:** The RBI and Government of India kept banking industry open for the participants of private sector banks and foreign banks. The foreign banks were also permitted to set up shop on India either as branches or as subsidiaries. Due to this lowered entry barriers many new players have entered the market such as private banks, foreign banks, non-banking finance companies, etc. The foreign banks and new private sector banks have spearhead the hi-tech revolution. For survival and growth in highly competitive environment banks have to follow the prompt and efficient customer service, which calls for appropriate customer centric policies and customer friendly procedures.
- **Privacy and Safety:** Among the most important aspects of savings, i.e., safety, liquidity and profitability, safety is at the top most priority. The areas which might endanger security in e-banking can be:
 1. Credit risk
 2. Liquidity, interest rate risk, market risks
 3. Legal risk
- **Global banking:** The impact of globalization becomes challenges for the domestic enterprises as they are bound to compete with global players. If we look at the Indian Banking Industry, then we find that there are 36 foreign banks operating in India, which becomes a major challenge for Nationalized and private sector banks.
- **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. In India, RBI has initiated several measures to achieve greater financial inclusion, such as facilitating no-frills accounts and GCCs for small deposits and credit.

4. CONCLUSION

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. This article discusses the various challenges and opportunities like High transaction costs, IT revolution, timely technological up-gradation, intense competition, privacy & safety, global banking, financial inclusion. Banks are striving to combat the competition. The competition from global banks and technological innovation has compelled the banks to rethink their policies and strategies. Different products provided by foreign banks to Indian customers have forced the Indian banks to diversity and upgrade themselves so as to compete and survive in the market.

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