Challenges and Opportunities Faced by Indian Banking Industry - Present Scenario

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Abstract

The banking industry 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 industry 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. However, with the changing dynamics of banking business brings new kind of risk exposure. In this paper an attempt has been made to identify the general sentiments, challenges and opportunities for the Indian Banking Industry. This article is divided in three parts. First part includes the introduction and general scenario of Indian banking industry. The second part discusses the various challenges and opportunities faced by Indian banking industry. Third part concludes that urgent emphasis is required on the Indian banking product and marketing strategies in order to get sustainable competitive edge over the intense competition from national and global banks. This article is a small seed to existing branch of knowledge in banking industry and is useful for bankers, strategist, policy makers and researchers.

Keywords: Banking Sector, Challenges, Risk Management

INTRODUCTION

The banking industry is undergoing a radical shift, one driven by new competition from FinTechs, changing business models, mounting regulation and compliance pressures, and disruptive technologies. The emergence of FinTech/non-bank startups is changing the competitive landscape in financial services, forcing traditional institutions to rethink the way they do business. As data breaches become prevalent and privacy concerns intensify, regulatory and compliance requirements become more restrictive as a result. And, if all of that wasn't enough, customer demands are evolving as consumers seek round-the-clock personalized service.

These and other banking industry challenges can be resolved by the very technology that's caused this disruption, but the transition from legacy systems to innovative solutions hasn't always been an easy one. That said, banks and credit unions need to embrace digital transformation if they wish to not only survive but thrive in the current landscape.

- **Status of Banking Industry at glance**

The Indian banking system consists of **26 public sector banks, 20 private sector banks, 43 foreign banks**, 56 regional rural banks, 1589 urban cooperative banks and 93550 rural cooperative banks. he Indian **banking sector's assets reached 1.8 trillion US dollars in 2014-15** from 1.3 trillion US dollars in 2010-11, with 70 per cent of it being accounted by the public sector.

Total lending and deposits increased at a compound annual growth rate **(CAGR) of 20.7 % and 19.7 %, respectively, between 2007 and 2014** and are further poised for growth, backed by demand for housing and personal finance.

Indian Banks have successfully adopted **the Basel II norms** of international banking supervision and as per the Reserve Bank of India (RBI) majority of the banks have already met **Basel III capital norms** prior to its deadline of 31 March 2019.

STATEMENT OF THE PROBLEM

In less developed countries, most of the firms are not yet quite familiar with the importance of Corporate Social Responsibility and thus don't pay much attention on the Corporate Social Responsibility. Now a day's people have more knowledge about the organizations and the work they are doing for the welfare of the society. So it's important to study Corporate Social Responsibility and its impacts on the profitability of firms in these economies. Over three-fourths of the total population in Bangladesh lives in the rural areas.

Most of such rural population is directly or indirectly engaged in a wide range of agricultural activities. Agriculture contributes significantly to the country's GDP.

About 57 per cent of the country's labour force is absorbed in the crop sector alone. The number of large, medium and small agro-based firms is quite limited in this country of about 160 million. Out of such firms, only a few ones could make headway in agri-business. Two or three such firms are exporting the country's agro-products to the overseas market. Agribusiness industry is focusing on CSR and thus this study is going to depict the impact of CSR on the financial performance of those firms.

Indian Banking Structure

The banks play a stellar role in the development of the nation with its high social content and commitment. The banks act as a development agency and are the source of hope and aspirations of the masses. Banking and finance arelike oxygen to any democracy. The structure of the banking system is determined by two basic factors –economic and legal. The development of the economy and the spread of banking habit calls for increasing banking services. The demand for these banking services affects the banks‟ structure and organization. National objectives and aspirations result in government regulations, which have a deep influence on the banking structure. The Reserve Bank of India began operations on April 01, 1935. The banks in India are being segregated in dissimilar groups. Each group has their own return and benefits, own devoted target markets and customer base with limitations of operation in India. The banking industry in India functions under the eagle's eye of Reserve Bank of India which is the dictatorial central bank. Banking Industry mainly consists of Commercial Banks and Cooperative Banks.

OBJECTIVES OF THE STUDY

The focus of this paper is to make an analyze of the banking industry in way of opportunities and challenges they operated. The specific objectives of the study are:

- To analyze the blow of Liberalization, privatization & globalization.
- To study the challenges and opportunities of national and commercial banks in changing banking scenario.
- To make an effort so as to know the significance of banks in India

CHALLENGES FACED BY INDIAN BANKING INDUSTRY

The banking sector in India has made quick strides in streamlining& aligning itself to the new aggressive business environment. One of the major challenges that Indian banks are facing today is how to cope with competitive services in order to strengthen their balance sheet. Nowadays, banks are whimpering with the burden of Non Performing Assets(NPA). It is truly felt that these debts, if not recovered, will eat into the very vitals of banks.

- **Rural Market**

  Banking in India is generally fairly mature in terms of product range, supply, and reach, even though reach in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of capital adequacy and quality of assets, Indian banks are considered to have clean, strong and clear balance sheets relative to other banks in comparable economies in its region.

- **Management of Risks**

  The rising 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. Wolgast, (2001) studied the merger and acquisition activity among financial firms. The author focused bank supervisors in context with success of mergers, risk management financial system stability and market liquidity. The study found concluded that large institutions are able to maintain a superior level of risk management.

- **Global Banking**

  It is fundamentally and practically impossible for any nation to exclude itself from the world economy. Therefore, for sustainable development, one has to adopt integration process in the form of liberalization and globalizations as India extend the red carpet for foreign firms in 1991. The crash 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. These foreign banks are large in size, technically advanced and having a presence in the global market, which gives more and better options and services to Indian traders.

- **Financial inclusion**

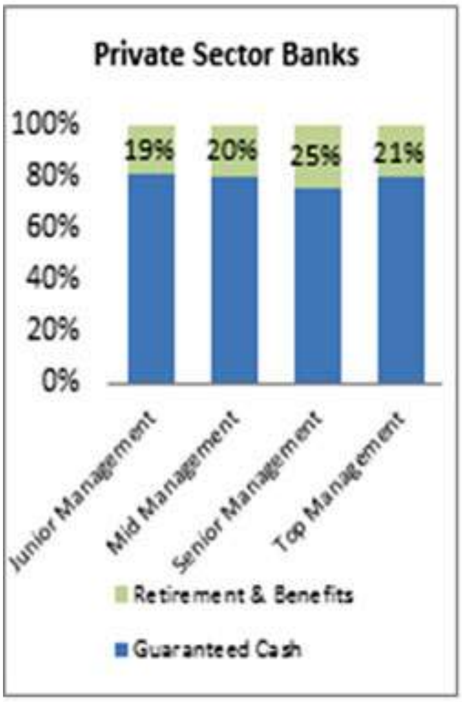
  Financial inclusion has become an essential in today_s business environment . Whatever is produced by business houses that have to be under the test out from various perspectives like environmental concerns, corporate governance, social and ethical issues? Apart from it to bridge the gap between rich and poor, the poor people of the country should be given proper awareness to improving their economic condition. 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.

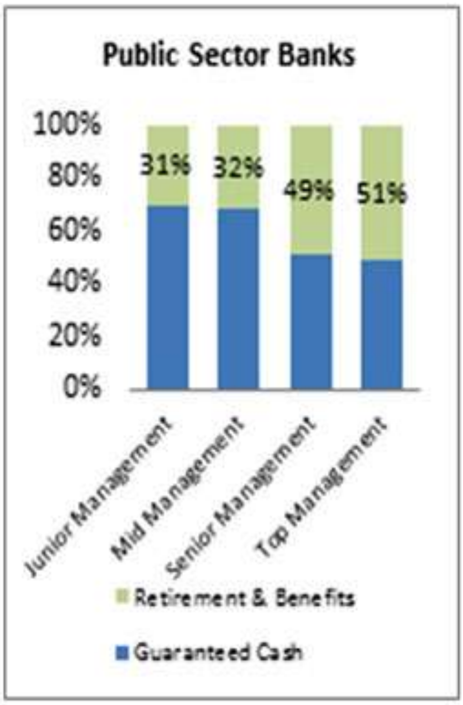
- **High Transaction Costs**

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. Competition With the ever increasing pace and extent of globalization of the Indian economy and the systematic opening up of the Indian Banking System to global competition, banks need to equip themselves to operate in the increasingly competitive Environment. This will make it imperative for Banks to enhance their systems and procedures to international standards and also simultaneously fortify their financial positions.

- **Employees' Retention**

The banking industry has changed rapidly in the last ten years, shifting from transactional and customer service-oriented to an increasingly aggressive environment, where competition for revenue is on right of way. Long-time banking employees are becoming disenchanted with the industry and are often resistant to perform





PUBLIC SECTOR BANKS ARE THE IDEAL PAYMASTERS

"Major Banks should be not only socially controlled, but publicly owned," announced Indira Gandhi on the eve of nationalisation of banks in the Indian summer of 1969. Indian policy making has come a long way since, with three series of banking licenses and now talks of licenses on tap, thanks to the RBI ***Governor Raghuram Rajan.***

However, 46 years after the nationalisation, state-owned banks continue to account for 77 per cent of deposits and 76 per cent of advances of the banking sector. Touted to be the main reason why India's banking sector withered the storms of the global financial crisis of 2009 rather gallantly, the state-owned banks have held their own while foreign banks went in and out of fashion, and Indian private sector banks made steady headway in both quantity as well as quality.

With their performance steadily improving, and as they continue giving their private counterparts a consistent run for their money (no pun intended), what emerges as a bit of a paradox is their ability to compete in the talent market. Given factors ranging from strong unions, ownership and legacy, pay policies at public sector banks have been at a peculiar variance as compared to those seen in the private sector. After all, institutions that make money by dealing in money have always been known to drive employees through money! So how would the state-owned super banks survive?

Usually, it is the large pay gap that public sector banks have with the private sector at top management levels that grabs the headlines. However, scratching beneath the surface reveals that an average public sector bank employee is rewarded competitively, especially considering the wide gamut of benefits that are doled out.

That the PSB attrition number of less than five per cent is significantly lower than banking attrition number of 14.9 per cent, is clearly no matter of coincidence. At 23.5 years, average tenure at public sector banks is four times that at private sector banks (5.85 years). This article is an attempt to explore elements of pay practices in public sector banks which give them a unique advantage as employers, which may remain unseen at first glance.

OTHER NON- MONETARY REWARDS

In addition to the benefits which can be valued in monetary terms, public sector banks provide several non-monetary relational rewards which are uniquely different from the private sector. Four such non-monetary rewards have been detailed out to emphasise their significance in total rewards for a public sector bank employee:-

- **Job security**

Other than on disciplinary grounds, public sector banks have virtually zero involuntary attrition. Compared to 4.5 per cent of involuntary attrition in private banks, job security stands out as a significant non-monetary reward. This policy of job security remained unchanged for public sector banks even at the height of the financial crisis in 2009-10. The private sector on the other hand saw 13 per cent of the organisations implementing a headcount reduction.

- **Rotation**

Imagine a career trail where a bank employee gets to hone his or her skills through stints across foreign exchange, treasury, retail and corporate operations, with experience of working across all zones in India as well as a stint in New York. Sounds tough to implement? Add to that a stint in new business development, as a head of a subsidiary and as a CFO and you will have a well-rounded banker ready for the top role.

This indeed is the career trail of current CMD of a leading public sector bank. Interestingly, such career paths at public sector banks are more of norms than exceptions. In fact, job rotation policy has been institutionalized as a part of career progression, by making certain rotations mandatory for promotions beyond a particular level. Such a policy on job rotation leaves an employee richer both in terms of capability and experience.

- **Training**

Frequent role changes on account of rotation necessitate role based training in public sector banks. Coupled with behavioral trainings, these courses account for a significant non-monetary people investment. A leading public sector bank for instance provided training to over 60 per cent of its officer population in the previous fiscal.

- **Work-life balance**

Public sector banks clearly trump their private peers on this count. Further, they offer a more liberal leave policy as compared to their private peers, especially when accruals and caps are compared. Advantages of distinct pay practices

People advantages of benefits and non-monetary rewards are visible. Compared to cash, they are more difficult to replicate and match by the competition. Further, some lifestyle benefits like club membership or staff quarters in prime locations are difficult to 'cash out'.

Also, non-monetary benefits prevalent in public sector banks like liberal leave policy and job security help create a sense of belonging.

It may be argued that benefits, though desirable, may not be the most cost-effective way of delivering compensation. Three illustrations show that benefits can actually help lower costs for the employer:-Cost advantages of distinct pay practices.

- **The Scale Advantage**

As mass employers, bank can procure/administer benefits for the employees at a fraction of a cost that the employee would have to pay as an individual.

Take the example of, say, holiday homes: the annual cost of operating holiday homes for one public sector bank is less than Rs 1,500 per eligible employee. A private holiday resort membership for an individual would cost a significant upfront amount in addition to annual charges. The increment advantage: A total rewards structure leaning more on non-monetary rewards ensures that the total cost to company increases at a rate slower than cash increments. This is because spends on non-monetary rewards need to go up by the same amount.

- **The tax advantage**

The tax rules corresponding to costing of certain perquisites enable significant tax savings. Needless to say, non-monetary rewards like training and paid time off are not taxed at all. These cost advantages, along with the obvious people advantage of increased engagement, sense of belonging and employee welfare help make benefits a strong differentiating factor for public sector banks.

CONCLUSION

India is one of the top 10 economies in the world, where the banking sector has tremendous potential to grow. The number of ATMs has doubled over the past few years, with more than 100,000 in the country at present (70 percent in urban areas). They are estimated to further double by 2016, with over 50 per cent expected to be set up in small towns. Also, the scope for mobile and internet banking is big. At the start of 2014, only 2 per cent of banking payments went through the electronic system in the country. Today, mobility and customer convenience are viewed as the primary factors of growth and banks are constantly exploring new technology, with terms such as mobile solutions and cloud computing being used with greater regularity. This paper 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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