INDIAN BANKING INDUSTRY: CHALLENGES AND OPPORTUNITIES

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ABSTRACT

India's Rs 77 trillion (US$ 1.25 trillion)-banking industry is the backbone to the economy. The sector emerged strong from global financial turmoil and proved its mettle when the developed economies were shaking. India's banking sector is on a high-growth trajectory with around 3.5 ATMs and less than seven bank branches per 100,000 people, according to a World Bank report. The statistics are going to improve in near future as the Government aims to have maximum financial inclusion in the country. Policymakers are making all the efforts to provide a facilitating policy framework and infrastructure support to ensure meaningful financial inclusion. Apart from that, financial institutions are collaborating with other service providers (in the fields of telecom, technology and consumer product providers) to create an enabling environment.

***Key Words**: Indian Banking, Banking Industry, Challenges, Opportunities.*

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INTRODUCTION

Banking industry in India has also achieved a new height with time. The use of technology has brought a revolution in the working style of the banks. At present banks are of dynamic nature as public, private, foreign banks offering versatile services as commercial banking, agricultural banking. Banking sector plays a pivot role in developing an economy. The market development coupled with the Liberalization and globalization have resulted in transformation of banks in a higher pace with technology. Banking has become the backbone of Indian economy. The life support system of a bank is shareholders and stakeholders.

Banks are the important component of any financial system .They play important role of channelizing the savings of surplus sector to deficient sector. Indian economy is not an exception to this and banking system in India also plays a important role in the process of economic growth and development The majority of the banks are still successful in keeping with the confidence of the share holders as well as other stake holders. There are various types of banks such as nationalized bank, private banks, public bank, foreign bank, cooperative bank. Banking industry is evolving to be more competitive and pro-active. Banks have started adopting new techniques like mobile and internet to provide their services.

Projections have stated that the Indian banking and securities companies will spend about Rs 41,700 crore (US$ 6.78 billion) on IT products and services in 2013, 13 per cent more than what they spent in 2012. This includes spending on internal IT services (including personnel), software, data centre technologies, devices and telecom services, according to a study by research and analyst firm Gartner.

Another report prepared by KPMG prepared in association with the Confederation of Indian Industry (CII) states that the Indian banking sector is expected to become fifth largest in the world by 2020. The report highlights that India is one of the top 10 economies of the world and with relatively lower domestic credit to gross domestic product (GDP) percentage, their lies a huge scope of growth for the banking sector. Bank credit is expected to grow at a compounded annual growth rate (CAGR) of 17 per cent in the medium term, eventually leading to higher credit penetration in the economy

HISTORICAL BACKGROUND

PRE -INDEPENDENCE

Bank of Hindustan was set up in 1870 . It was the earliest Indian bank. Later three presidency banks under presidency banks act 1876 like bank of Calcutta, bank of Bombay and bank of madas were set up. Im 1921 these banks were amalgamated and a completely new bank was incorporated namely Imperial bank of India. In 1934 RBI was constituted as a apex body but without major government ownership. Banking regulation act was passed in 1949 .This regulation brought RBI under government control.

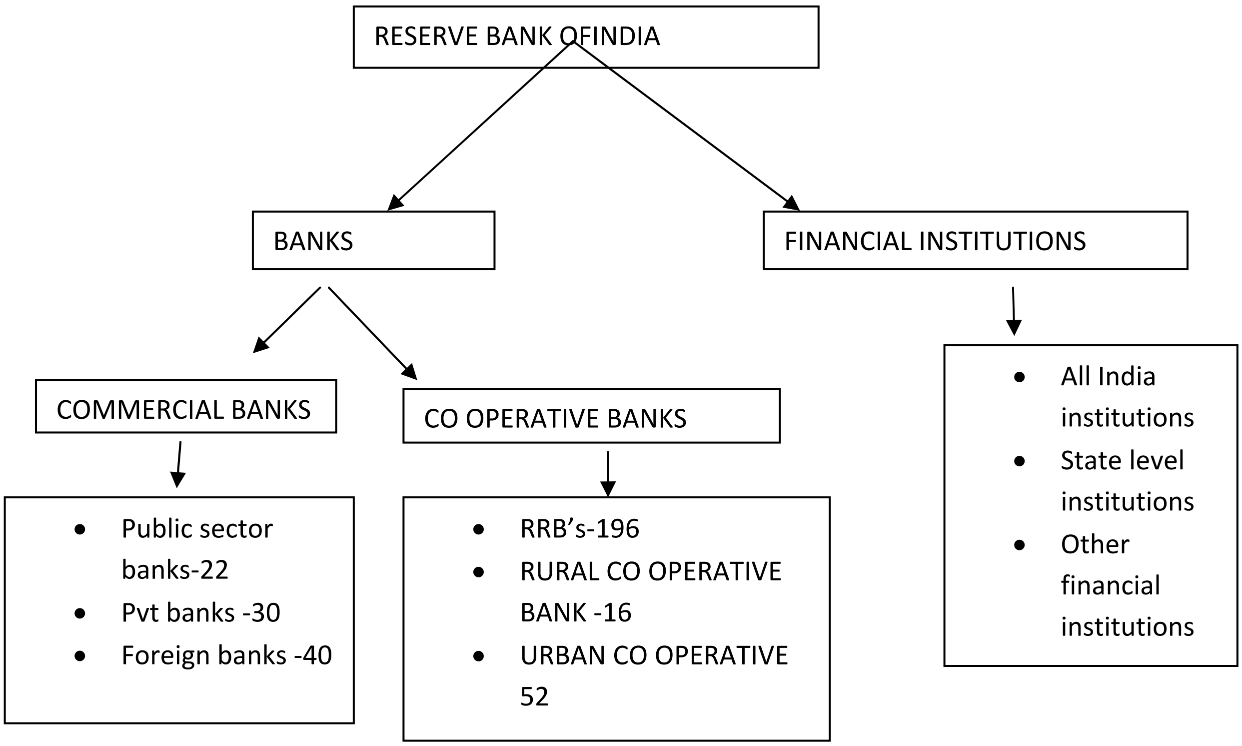
POST -INDEPENDENCE

In 1955 RBI acquired control of the Imperial bank of India which was re named as state bank of india. On july 1969 14 banks were nationalized with a view to extending credit to all segments of the economy. The banking scenario prevalent during the country 1948 to 1968 presented a strong focus on class banking on security than on purpose. The emphasis on the banking system during this period was on developing a sound banking system for the country .Banking sector which during the pre independence India was catering to the needs of the government , rich individuals and traders ,opened its doors wider and set out for the first time to bring the entire productive sector of the economy. During this period number of commercial period declined remarkably. There were 566 banks as on December 1951, of this number scheduled banks was 92 and remaining 474 were non scheduled banks. There was high expansion banks in 1968 to 1984 .This period also witnesses birth of RRB in 1975 and NABARD in 1982 which had priority sector as their focus of activity. Further the branch expansion from 1969 to 1991 was very vast as there were 8262 branches in total which constituted 1833 in rural and 3342 in semi -urban areas .Further there were 1980 banks with 1505 branches in rural and 8122 branches in semi urban areas. In 1991 there were 35206 rural and 11344 semi –urban branches which in total were 60220.

Structure of Indian banking Industry

RBI is the sole controller of all the banking and non banking financial institutions and is working as the bank of banks. It issues timely guidelines and parameters to all the banks on which they conduct the function of banking. India’s largest bank the state bank of India and its seven associate banks were brought under social control in the mid to late fifties therefore ,with two successive nationalization of banks ,another 19 banks(14 banks in 1969

& 6 in 1980) were brought in the public sector. Earlier the banking was only confined to metropolitan areas but now it is also introduced in the rural sector further strengthening the economy.The number of old private banks are 22 and new private banks are 8.



Recent Developments

- Private lender HDFC Bank is planning to launch 500 mini branches, to be handled by one to three people, across India by the end of FY14. The bank has added about 219 mini branches pan-India since 2012. The basic motive behind such a initiative by the bank is to take the formal banking experience to people in unbanked and under-banked areas. A mini branch, manned by one, two or three persons, offers the entire range of products and services including savings and current accounts, fixed deposits, recurring deposits, credit card, instant debit card and also ATM facility. Products such as two wheeler loan, tractor loan, commercial vehicle loan, agricultural and commodities loan among others are also offered.
- Saudi Arabia's National Commercial Bank is said to have signed Tata Consultancy Services (TCS) to make India's largest software exporter implement its core

banking platform for the former. TCS offers a plethora of retail banking solutions under BaNCS, a brand of core banking suite. National Commercial Bank intends to develop electronic services and provide technology-based banking solutions to its clients through this initiative.

- On the similar lines, ING Vysya Bank Ltd has appointed IBM and its 'MobileFirst' banking solution for the development of its ING Vysya Mobile - a cost effective, secure and scalable mobile banking application. The new application will help the bank maximise its reach to untapped markets. Moreover, the advanced features will enhance bank's involvement with its clients, facilitating higher availability and convenience.
- According to the Reserve Bank of India (RBI)'s 'Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks', March 2013, Nationalised Banks accounted for 52.4 per cent of the aggregate deposits, while the State Bank of India (SBI) and its Associates accounted for 22 per cent. The share of New Private Sector Banks, Old Private Sector Banks, Foreign Banks, and Regional Rural Banks in aggregate deposits was 13.6 per cent, 5.1 per cent, 4 per cent and 2.9 per cent, respectively.

  Nationalised Banks accounted for the highest share of 51 per cent in gross bank credit followed by State Bank of India and its Associates (22.7 per cent) and New Private Sector Banks (14 per cent). Foreign Banks, Old Private Sector Banks and Regional Rural Banks had shares of around 4.9 per cent, 5 per cent and 2.5 per cent, respectively.
- Banks' credit (loan) growth increased to 18 per cent for the fortnight ended September 6, 2013, while deposits grew by 13.37 per cent showed the data by RBI. India's foreign exchange reserves increased to US$ 277.73 billion as of October 4, 2013.

RBI's foreign bank norms signal prospect: Fitch

Rating agency Fitch on Friday said the Reserve Bank's recent wholly-owned subsidiary (WOS) guidelines for foreign banks will not change the landscape of the Indian banking space but portend well for sector in the long run. "As such, the recent rules are a good beginning - but insufficient, by themselves, to shake up the domestic banking landscape. But what it potentially signals is that further banking reforms - currently being considered - are not too far off," the agency said in a statement. RBI has recently come out with detailed guidelines for subsidiarisation of domestic foreign banks. WOS of foreign banks will now have considerable freedom to open branches, list on Indian exchanges and participate in domestic mergers & acquisitions, Fitch said. In theory, it added, the norms ought to encourage existing large foreign banks to deepen business profiles in India. "But regulatory treatment which is almost equivalent to that for domestic banks, will also create formidable challenges such as meeting priority sector lending (PSL) norms (40 per cent net bank credit) and maintaining at least 25 per cent of all new branches in unbanked centres," it added. Foreign banks with 20 or more branches are anyway obliged to comply with the broad and sub-targets under PSL till 2017-18 financial year. Moreover, Fitch said, meeting PSL guidelines may alter risk profiles and intensify competition in areas that are not traditional growth areas for foreign-owned entities - such as agribusiness (sub-limit of 18 per cent). "It is not obvious that the recent framework will incentivize foreign banks to adopt the WOS model; but in the event they do, Fitch believes that such a step is likely to be driven by strategic reasons - as commercial reasons appear less compelling," the agency said. The option of converting to subsidiaries was also made available during the first phase of India's foreign bank reforms between 2004-05 and 2008-09, although foreign banks refrained from exercising this option. Fitch said large foreign banks that may ultimately opt for subsidiarisation could benefit over the longer-term and consolidate their presence. But even then, limited capital headroom may pose future growth challenges, it said. Foreign banks in India have a small but rising share of system assets. There are more than 40 foreign banks in India, of which the top three (Citibank, Standard Chartered and HSBC) account for over 60 per cent of the total foreign banking assets. All of these institutions operate at present through the branch format.

CHALLENGES BEFORE INDIAN BANKING INDUSTRY

- **FRAUD IN BANKS**

A bank fraud is a deliberate act of omission or Commission by a person carried out in course of banking transaction or in books of account maintained manually or under computer systems in banks, resulting into wrong full gain to any person for a temporary period or otherwise, with or without any monetary loss to the bank"Thus an act of fraud committed is injurious to the functionin of bank.

- **Greater Thrust on Credit Portfolio**

One of the critical issues facing the Banking Sector in India is the flow of credit to all the sectors of the economy. Retail financial services, particularly housing and personal loans, continued to traverse a high growth trajectory, fuelled mainly by demographic shifts and rising household incomes. India has been undertaking measures to remove the impediments on timely availability of credit through various means

- **Consolidation of the Banking System**

One of the major objectives of the banking sector reforms has been to enhance efficiency and productivity through competition. This has trigerred Banks imagination in order to maintain their market share ,growth .

- **Management of Risks**

The growing competition increases the competitiveness among banks. But, existing global banking scenario is seriously posing threats for for this sector. Therefore,attempted to gauge the overall risk management capability of banks.

- **Market discipline and transparency**

Banks are expected to be more responsive and accountable to the investors. Banks have to disclose in their balance sheets a plethora of information on the maturity profiles of assets and liabilities, lending to sensitive sectors, movements in NPAs, capital, provisions, shareholdings of the government, value of investment in India and abroad.

- **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 the global world.

- **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 economic condition.

- **Efficiency**

Excellent efficiencies are required at banker's end to establish a balance between the commercial and social considerations Bank need to access low cost funds and simultaneously improve the efficiency and efficacy

- **Diffused customer loyalty:**

Attractive offers by MNC and other nationalized banks, customers have become more demanding and the loyalties are diffused. Value added offerings bound customers to change their preferences and perspective

CONCLUSION

In order to enhance financial inclusion in India, the RBI has taken an important step that has given banks conditional freedom to open branches in tier-I cities without seeking the central bank's approval in each case. Also, the RBI has relaxed the norms for banks borrowing through foreign currency. For bank borrowings exceeding half the unimpaired tier-I capital made on or before November 30, 2013, for availing of RBI's swap facility, the central bank lowered the maturity requirement from three years to a year. The initiative aims to attract foreign inflows, as it is easier to get loans for one year, rather than three years. However, borrowings taken after November 30, would have to have maturity period of three years. Thus we analyse that challenges in such a dynamic environment being faced by the the Indian banks needs to be dealt seriously as due to hard core competition .The banks have their own functioning with policies, regulations & directions from RBI which is thriving very hard to combat the competition in the economy .The banks have always been the chord of connectivity of nation with population and after discussing challenges ,opportunities like management of expectations, management of risks we believe banks are still striving sense of stability The competition on global and technical parameters have made banks to rethink and reincorporate their structure and policies .

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