

## **Challenges and Opportunities at National and Global Level for Indian Banking Sector**

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### **ABSTRACT:**

*The Indian money market is classified into organized and unorganized sector. Organized sector includes private, public and foreign owned commercial banks and cooperative banks while unorganized sector comprises money lenders and non banking financial companies. It has been observed that none of the reviewed study addresses the issues such as technological developments (extent of computerisation) of co-operative banks, different aspects affecting the development of co-operative banks, problems and prospects of bank computerisation, responses of the employees and customers on bank computerisation, and different software solutions available for bank computerisation. This research paper emphasize that Indian Banking sector may focus on existing players, new entrants, multinationals and consumer behavior. There is a vast competition in front of Indian Banking system in form of players, their intensity, market size, profitability and growth. There are various issues related to governance, regulation and audit. Electronic banking is a challenge as well as opportunity for Indian Banking sector. The new and emerging opportunities are consumer and commercial banking. Competitive advantage can be achieved through harnessing the potential available in the employees by creating a positive work culture and enlisting the support of all the employees to the organizational goals.*

**Key words: Banking, Privatization, Banks**

## **INTRODUCTION:**

The Bank of Hindustan was the first bank to be established in India in 1770. Presidency bank was established in the names of –

- 1) Bank of Bangal (1809, First name Bank of Calcutta – 1806)
- 2) Bank of Bombay (1840)
- 3) Bank of Madras (1843)

In 1920, presidency bank was merged to form Imperial bank of India and it was private entity.

In 1955, Imperial bank of India was nationalized and remained as State bank of India on the recommendation of “A. D. Gorewala committee”. 8 banks were attached with SBI 1959, named as associated Banks of SBI.

They were\_

1. State bank of Bikaner
2. State bank of Jaipur
3. State bank of Saurashtra
4. State bank of Indore
5. State bank of Hyderabad
6. State bank of Patiala
7. State bank of Mysore
8. State bank of Travancore

### **Structure of Indian Banking Industry:**

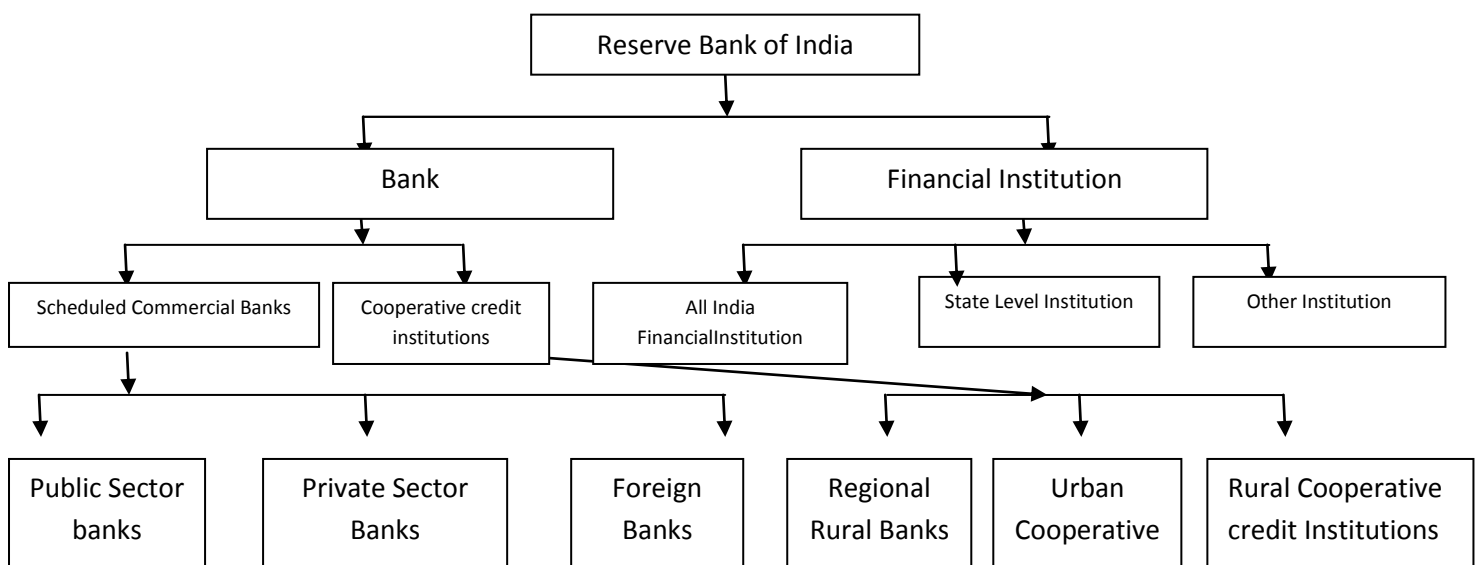


FIGURE 1: The commercial banking structure in India

S.No.	NATIONALIZED BANKS	PRIVATE SECTOR BANKS	FOREIGN BANKS
1.	Allahabad Bank Ltd.	Axis Bank Ltd	Abu Dhabi Commercial Bank Ltd.
2.	Andhra Bank Ltd.	Development Credit Bank	American Express Bank
3.	Bank of Baroda Ltd.	HDFC Bank Ltd.	Bank International Indonesia
4.	Bank of India Ltd.	ICICI Bank Ltd	Bank of America NA
5.	Bank of Maharashtra Ltd.	IndusInd Bank Ltd.	Bank of Ceylon
6.	Canara Bank Ltd.	Kotak Mahindra Bank	Bank of Nova Scotia
7.	Central Bank of India Ltd.	Yes Bank Ltd.	Bank of Tokyo Mitsubishi UFJ
8.	Corporation Bank Ltd.	IDBI Bank Ltd.	Barclays Bank PLC
9.	Dena Bank Ltd.	Catholic Syrian Bank Ltd.	BNP Paribas
10.	Indian Bank Ltd.	City Union Bank Ltd.	Calyon Bank
11.	Indian Overseas Bank Ltd.	Dhanalakshmi Bank Ltd.	China Trust Commercial Bank
12.	Oriental Bank of Commerce	Federal Bank Ltd.	Citibank N.A.
13.	Punjab & Sind Bank Ltd.	ING Vysya Bank Ltd.	DBS Bank
14.	Punjab Bank Ltd.	Jammu & Kashmir Bank	Deutsche Bank AG
15.	Syndicate Bank Ltd.	Karnataka Bank Ltd.	HSBC
16.	UCO Bank Ltd.	KarurVysya Bank Ltd.	JP Morgan Chase Bank
17.	Union Bank of India Ltd.	Lakshmi Vilas Bank Ltd.	Krung Thai Bank
18.	United Bank of India Ltd.	Nainital Bank Ltd.	Mashreq Bank psc
19.	Vijaya Bank Ltd.	Ratnakar Bank Ltd.	Mizuho Corporate Bank
20.	State Bank of Bikaner and Jaipur Ltd.	SBI Commercial & International Bank Ltd.	Royal Bank of Scotland
21.	State Bank of Hyderabad Ltd.	South Indian Bank Ltd.	Shinhan Bank
22.	State Bank of India Ltd.	Tamil Nadu Mercantile	SocieteGenerale
23.	State Bank of Mysore Ltd.		Sonali Bank
24.	State Bank of Patiala Ltd.		Standard Chartered Bank
25.	State Bank of Travancore Ltd.		State Bank of Maritius

Source: [http://finance.indiamart.com/investment\\_in\\_india/scheduled\\_commercial\\_banks.html](http://finance.indiamart.com/investment_in_india/scheduled_commercial_banks.html)

**TABLE 1:** Scheduled Commercial Banks Operating In India

### Changing Face of Indian Banking:

From traditional banking practices during the British Rule to reforms period, nationalization to privatization and to the present trend of increasing number of foreign banks, Indian banking sector has undergone significant transformation. The move from old to new business environment has created newer demands on Indian bank like enhanced work flow, full customer access to banking transactions through electronic mode etc.

With easy credit facilities the banks are transforming the consumer propensity of Indians with everything from microwave ovens to houses on sale at easy monthly installments EMIs. Using information technology, banks have upgraded their systems to provide better customer services. Automatic Teller Machines (ATMs) dispensing any time money are visible in most localities of big cities and consumers are increasingly responding to banking transactions without visiting the banks. Online and mobile banking has brought the banks virtually to their doorsteps. However, all this has exposed the banks to new kind of risks. The familiarity between bank employees and customers has become increasingly remote. Though the banks distribute various back end and front end operations to minimize

risk and uses highly secure socket layers SSLs, digital certificates and facilities like virtual key boards to reduce the risks in online transactions, attacks like phishing and pharming have been on the rise.

### **RESEARCH METHODOLOGY:**

Use of secondary data-

- ❖ Journals
- ❖ Newspapers
- ❖ Websites
- ❖ Books
- ❖ Published data related to topic

### **OBJECTIVE OF THE STUDY:**

The main objective of this research is to study different challenges and opportunities at national and global level for Indian Banking Industry.

### **CHALLENGES FACED BY INDIAN BANKING INDUSTRY:**

The Indian Banking Sector: challenges and opportunities [1] [2] [3]

A distinguished panel of managing directors and chief executive officers of some of the well-known banks in the country responded to the theme on the challenges and opportunities faced by the Indian banking sector in the liberalized environment [K. V. Kamath et. al] [1]. The contributors addressed some of the following important issues regarding E-Banking and its importance:

- The Indian banking sector is at an exciting point in its evolution. The opportunities to enter new business and new markets and to deliver higher levels of customer service are immense.
- As the Indian bank's position itself is that of a financial service provider, banking business is getting redefined. Technology is unsettling the earlier business processes and customer behaviour is undergoing a change. These have enhanced the focus of competition.
- Competitive advantage can be achieved by harnessing the potential of the employees by creating a positive work culture and enlisting the support of all the employees to achieve the organisational goals. • Indian banks have adopted better operational strategies and have upgraded their skills. They have withstood the initial challenges and have become more adaptive to the changing environment.
- In the complex and fast changing environment, the only sustainable competitive advantage for banks is to give the customer an optimum blend of technology and traditional service.
- Four trends are fundamentally altering the banking industry: consolidation, globalization of operations, development of new technologies, and universalisation of banking.

The issues addressed by distinguished panel members are as follows;

**N. Ravichandran (Professor, IIMA):**

The Indian banking sector is going through major changes as a consequence of economic reforms. The changes affect the ownership pattern of banks, availability of funds, the cost of funds as well as opportunities to earn, range of services (fee based and fund based), and management of priority sector lending. The new rules of competition require recognition of the importance of consumers and the necessity to address the needs through the innovative products supported by new technology. As a consequence of competition, the managerial challenges include market segmentation, product positioning, innovative delivery channels and cross selling. The banks may have to reorient their resources in the form of reorganized branch networks, reduced manpower, dramatic reduction in establishment cost, honing the skills of the staff, and innovative ways of attracting talented managerial pool. The Government of India and Reserve Bank of India on their part, would strengthen the existing norms in terms of governing and directing the functioning of these banks.

**K V Kamath (MD and CEO, ICICI Bank):**

The biggest opportunity for the Indian banking system today is the Indian consumer. Demographic shifts in terms of income levels and cultural shifts in terms of lifestyle aspirations are changing the profile of the Indian consumer. This is and will be a key driver of economic growth going forward. The Indian banking sector is at an exciting point in its evolution. The opportunities are immense – to enter new businesses and new markets, to develop new ways of working, to improve efficiency, and to deliver higher levels of customer service.

**S S Kohli (CMD, Punjab National Bank):**

With gradual deregulations, banks are now exposed to different types of risks. In view of the dynamic nature of the financial market, banks face various market risks like interest rate risk, liquidity risk, exchange risk, etc. In respect of lending, they face credit risk which includes default risk and portfolio risk. Besides, banks also face other risks like reputational risk and operational risk. Therefore, a robust risk management system is necessary. As the Indian banks move gradually beyond universal banking and position themselves as financial service providers, banking business is getting redefined. Technology is unsettling the earlier business process and the customer's behaviour is undergoing a change. These have enhanced the forces of competition. To survive under these conditions, the public sector banks will have to undertake business process reengineering, redefine their strategy and HR strategies to the overall business strategy. The technology will become a key driver of a financial business.

**P S Shenoy (CMD, Bank of Baroda):**

In the new business environment, banks have to be flexible enough to accommodate changes and at the same time have the necessary stability to retain the core competencies to deal with change. Electronic banking services have spread quickly in recent years. The threat of new entrants has lead many banks to offer e-finance ranging from basic to fully integrated internet services. The banks need to develop robust internal control systems, management information systems, and early warning triggers. Four trends are fundamentally altering the banking industry: consolidation, globalization of operations, development of new technologies and universalisation of banking.

**Ranjana Kumar (CMD, Indian Bank):**

On account of introduction of certain advanced technology, there would also be a strong case for recruiting fresh talent with attractive pay and perquisites. However, an organisation cannot afford to go on inducting talent without reviewing its existing manpower and how worthwhile it is to continue with some of them in the changed scenario. Even after equipping people with the latest knowledge, the results will not start flowing unless they are empowered to deliver the vision of the organization. The vision of the organisation should be exciting to the employees and a source to unleash their potential.

**R M Nayak (MD and CEO, Lord Krishna Bank):**

Some of the challenges that banks are facing today are: changing needs of the customers, coping with regulatory reforms, thinning spread, maintaining high quality assets, management of impaired assets, keeping pace with technology upgradations, sustaining healthy bottom lines and increasing shareholder value.

**P T Kuppuswamy (Chairman and CEO, The Karur Vysysa Bank):**

The Indian banking sector is faced with multiple and concurrent challenges such as increased competition, rising customer expectations and diminishing customer loyalty. The expectations from the consumers have been growing. Broadly, these expectations are swift service with minimal response time, efficient service delivery, tailor-made and 81 value added products to suit specific needs, hassle free procedures and minimum transaction costs, and pleasant and personalized service.

**S. Balasubramanya (2002) [2]**

described that a banking sector is entering into the new world and existing developments in banking sector are changing the face of banking. Technology has revolutionised the banking industry in a big way and banks all around the world are investing heavily in technology. Technology has also helped banks to improve their product's delivery and profitability. When banks depend on technology for their day-to-day business, the complexity and risks of technology has to be understood and sufficient backup plan put in place to ensure continued customer service. In addition, as more technology based services are provided, the demand from customers will keep increasing and banks would thereby end up in a technology war. In order to win this war, investments in technology are going to increase and proper utilisation of these investments is essential for banks to ensure that the systems deployed are fully integrated with their operations. With more and more centralized core banking solutions being deployed by major banks, there is a strongly felt (faith) need to provide comprehensive telebanking services either from a single location or from regional locations based on customer language preference. Further, a significant amount of back office processing can be centralised, relieving the branch staff for more customer interactions. This is expected to bring in large-scale economies of operations and better customer services.

The study conducted by Kunkalienkar Manoj [3] presented that though technology is a revolutionary agent, it will not be a cure for all inefficiencies. The main area of awareness for banks is going to be the re-skilling of the workforce, both in technology and non-technology areas. One of the major areas where re-skilling is needed is in the area of customer service and customer focus; how to manage customer expectation, his feedback; how to attract new profitable customers; how to package products and services to meet customer needs, create a hygienic branch environment and other contact points.

Another major need is to ensure consistent customer experience, irrespective of the 82 channel used for interaction with him. Added to this is the security across all channels and distribution points for customer information and transactions. While technology may not be a cure-all, it is definitely an enabler. The tool has to be used efficiently and effectively to originate maximum benefits. This will definitely be a differentiator to offer products and services.

**Mr V. M. Uchil, Chairman, Nextstep Infotech Pvt Ltd :**

The Indian Banking industry has come a long way from those early days. The journey ahead, promises to be exciting and eventful. Developments and changes in the Indian economy have created an entirely new set of challenges in front of banking institutions. The application areas for the newer technology in banks can be by and large divided in two categories namely customer centered (Technology) applications and high end (Functionality) applications. Customer centered application includes the solutions like internet banking, anywhere branch banking, mobile banking, core banking solutions, whereas high end technology encompasses risk management solutions, straight through processing (STP), credit monitoring systems for the data collections etc.

Banks have computerised their branches individually through ALPMs, and TBAs, etc. This takes care of the individual branch requirements. Nowadays banks have realised the importance of core banking and are in the process of converting this from TBA atmosphere to centralise banking systems. Internet banking has become a buzzword in the banking industry. So far these applications are limited to metros. Still a large majority of Indian customers are out of the purview of this modernisation.

**Mr Suheim Sheikh, Managing Director, SDG Software Technologies:**

Money Laundering and Fraud is increasingly becoming a matter of concern for financial institutions including banks and investment houses all over the world, given the severe penalties imposed by the regulatory authorities for non-compliance of Anti-Money Laundering (AML) reporting requirements. With several co-operative banks and financial institutions collapsing due to mismanagement and fraudulent activities, a solution is 83 needed that can serve as an early warning system which will help to initiate the necessary preventive steps and ensure that a mechanism is in place to address these issues. The banks as well as customers have a serious concern about the security of Internet access to client account which is the biggest challenge. Banking through the Internet is increasingly becoming necessary rather than innovative tool and with consumer demand banks have to upgrade and constantly think of new innovative customised packages and services to remain competitive [Anil Jadhav & Rajni Jadhav, 2004] [4]. Implementation of SET, the standard for Secure Electronic Transaction on the Internet and its wide spread adoption including security measures like encryption, digital authentication and verification of online identity increases the consumer's confidence. Consumers are increasingly looking for services which they can access from a single entry point. Awareness of competition have motivated banks to move aggressively in seeking alliances and establishing joint ventures to maintain their claim to the part of e-commerce infrastructure. Adequate level of infrastructure and human capacity building are required before adopting the global technology for local requirement. Lack of regulatory framework, trust and privacy standards are also important challenges. Unless critical mass is achieved for PC, Internet connection and Telephones, e-banking will continue to slow the pace in India. However the growing demand of IT professionals in pressurising the Government and bureaucracy in the country to support and develop new initiative for the faster spread of e-banking in India.

Mittal R. K. and Dhingra Sanjay [5] discussed the issue that the transaction through technology channels cost much less to the banks than the customers reaching the bank and doing the transactions. In the last decade banks have invested heavily in the technology. In the use of information technology, the new private and foreign sector banks have taken lead over the public and old private sector banks. Today public sector banks are also investing heavily in technology to compete with the new private and foreign sector banks. In the study authors have identified the different technology issues and challenges such as choice of right channel, justification of IT investment in terms of ROI (Rate of Interest), e-governance, customer relationship management, security 84 concerns, penetration of IT in rural areas etc. Banks are required to address these issues and challenges effectively to stay in business and grow.

### **Rural Market**

Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region

For example

- ICICI Bank Ltd. merged the Bank of Rajasthan Ltd. in order to increase its Reach in rural market and market share significantly.
- State Bank of India (SBI), the largest public sector bank in India has also adopted the same strategy to retain its position. It is in the process of acquiring its associates. Recently, SBI has merged State Bank of Indore in 2010.

### **Management of Risks:**

Existing global banking scenario is seriously posing threats for Indian Banking Industry. Online and mobile banking has brought the banks virtually to their doorsteps. However, all this has exposed the banks to new kind of risks.

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 concluded that large institutions are able to maintain a superior level of risk management.

### **Growth of Banking:**

The empirical study indicated that, after an initial adjustment phase, the Indian banking industry experienced sustained productivity growth, which was driven mainly by technological progress.

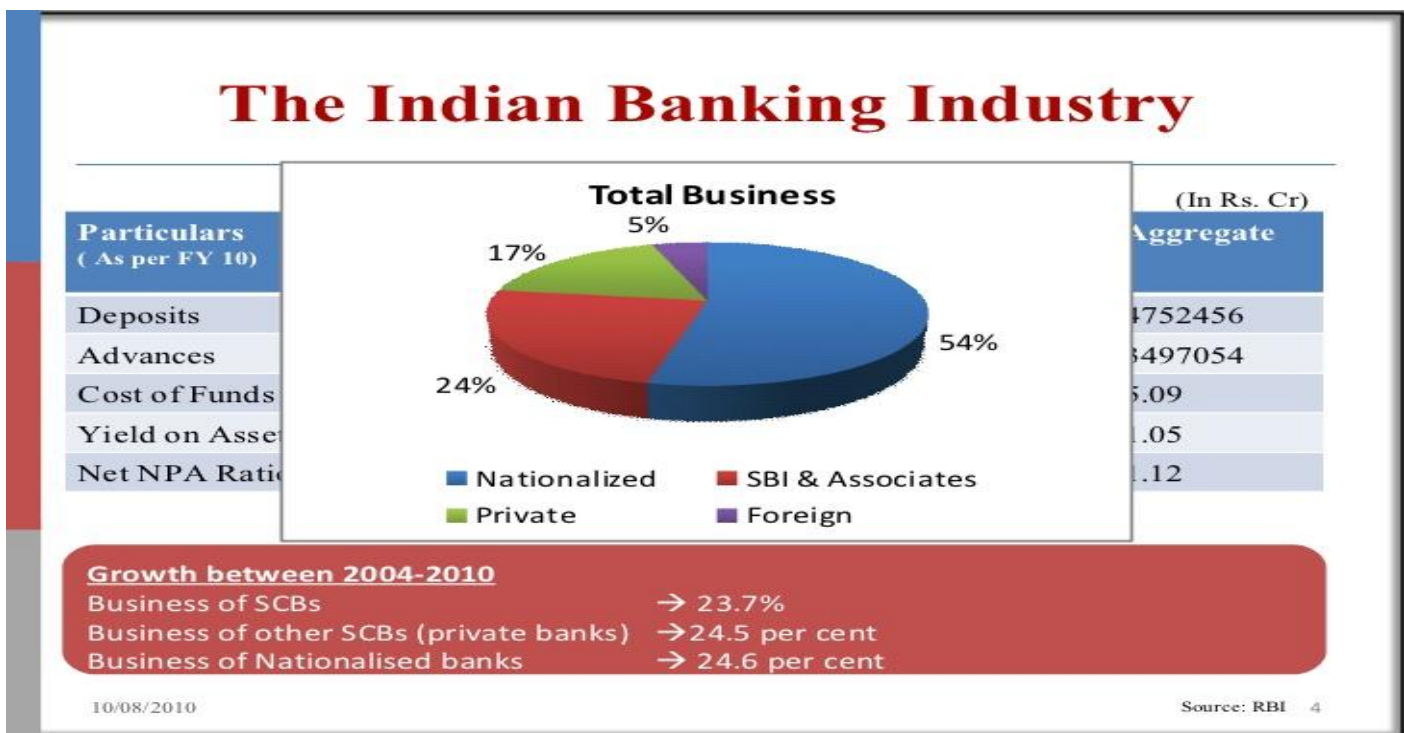
### **Global Banking:**

Globalization becomes challenges for the domestic enterprises as they are bound to compete with global players.

- Deregulation of lending and deposit rates
- Entry of new private sector banks
- Extensive use of technology for product innovation and delivery



- Emergence of retail banking and new derivative products
- Raising capital adequacy requirements
- Requirement for better risk management practices and capital allocation of various risks
- Changing needs of customers
- Coping with regulatory reforms
- Maintaining high quality assets
- Keeping pace with technology up gradations
- Management of impaired assets



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## **CONCLUSION:**

As per the above study, it is concluded that the pre and post liberalization era has witnessed various environmental changes which directly affects the Indian banking sector. Globalization of market posed various challenges in front of banking sector. There are various challenges and opportunities at national as well as global level for Indian Banking Sector as rural market, transparency, mobile banking, employee and customer retention, social and ethical issues, to serve mass market etc. The competition from global banks and technological innovation has compelled the banks to rethink their policies and strategies. Companies have shifted their focus from product to customer.

The level of consumer awareness is significantly higher as compared to previous years. Now-a-days they need internet banking, mobile banking and ATM services. Therefore, the better we understand our customers, the more successful we will be in meeting their needs.

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