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Indian Banking Sector: Challenges And Prospect

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Abstract

The economic reforms initiated by the Government of India about two decades ago have changed the landscape of several sectors of the Indian economy. The Indian banking sector is no exception. This sector is going through major changes as a consequence of economic reforms. The role of banking industry is very important as one of the leading and mostly essential service sector. India is the largest economy in the world having more than 120 core population. Today in India the service sector is contributing half of the Indian GDP and the banking is most popular service sector in India. The significant role of banking industry is essential to speed up the social economic development. Banks plays an important role in the economic development of developing countries. Economic development involves investment in various sectors of the economy. The economic reforms have also generated new and powerful customers (huge Indian middle class) and new mix of players (public sector units, private banks, and foreign banks).they are also nationalization to privatization of banks and now increasing numbers of foreign banks in India. 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 structure of Indian banking industry. The second part discusses the various challenges and opportunities faced by Indian banking.

Keyword

Liberalization, Privatization, Globalization, Governance, Risk Management, Associate, Grievances,

Introduction

In recent time, we has witnessed that the World Economy is passing through some intricate circumstances as bankruptcy of banking & financial institutions, debt crisis in major economies of the world and euro zone crisis. The scenario has become very uncertain causing recession in major economies like US and Europe. This poses some serious questions about the survival, growth and maintaining the sustainable development. However, amidst all this turmoil India's Banking Industry has been amongst the few to maintain resilience. The tempo of development for the Indian banking industry has been remarkable over the past decade. It is evident from the higher pace of credit expansion, expanding profitability and productivity similar to banks in developed markets, lower incidence of non- performing assets and focus on financial inclusion have contributed to making Indian banking vibrant and strong. Indian banks have begun to revise their growth approach and re-evaluate the prospects on hand to keep the economy rolling. In this paper an attempt has been made to review various challenges which are likely to be faced by Indian banking industry economy rolling.

Objective of study

- 1) To study of the Indian Banking structure.
- 2) To study of the Indian Banking Sector of Challenges
- 3) To study of the advantage and disadvantage Indian Banking Sector

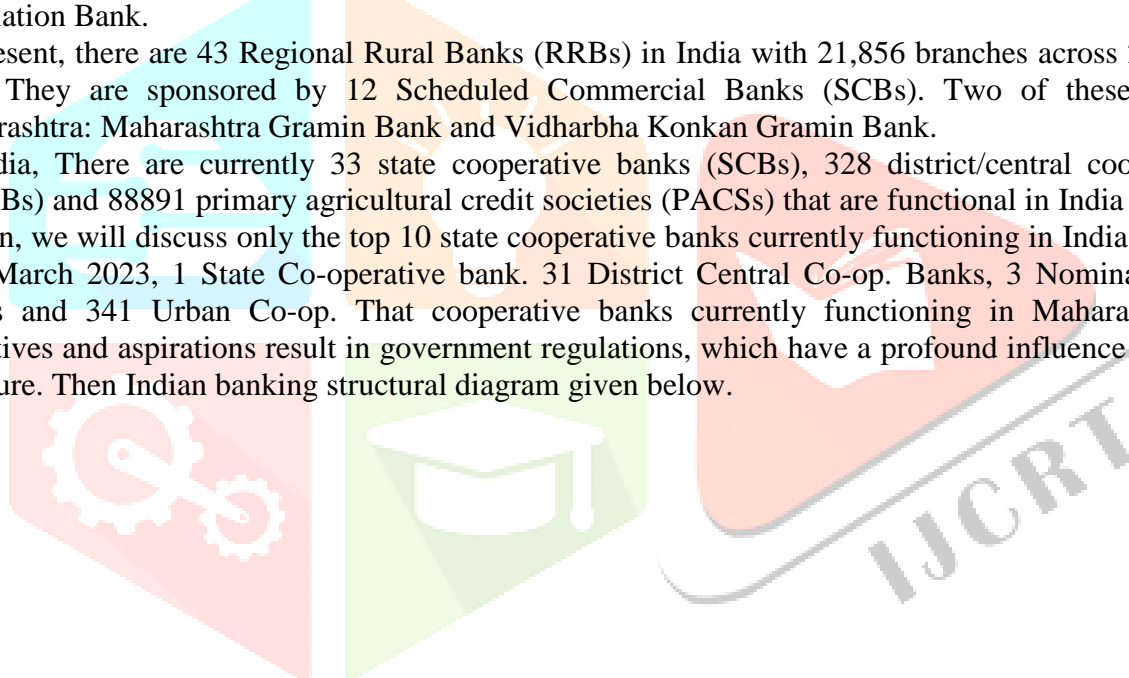
Indian banking structure

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 is like 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.

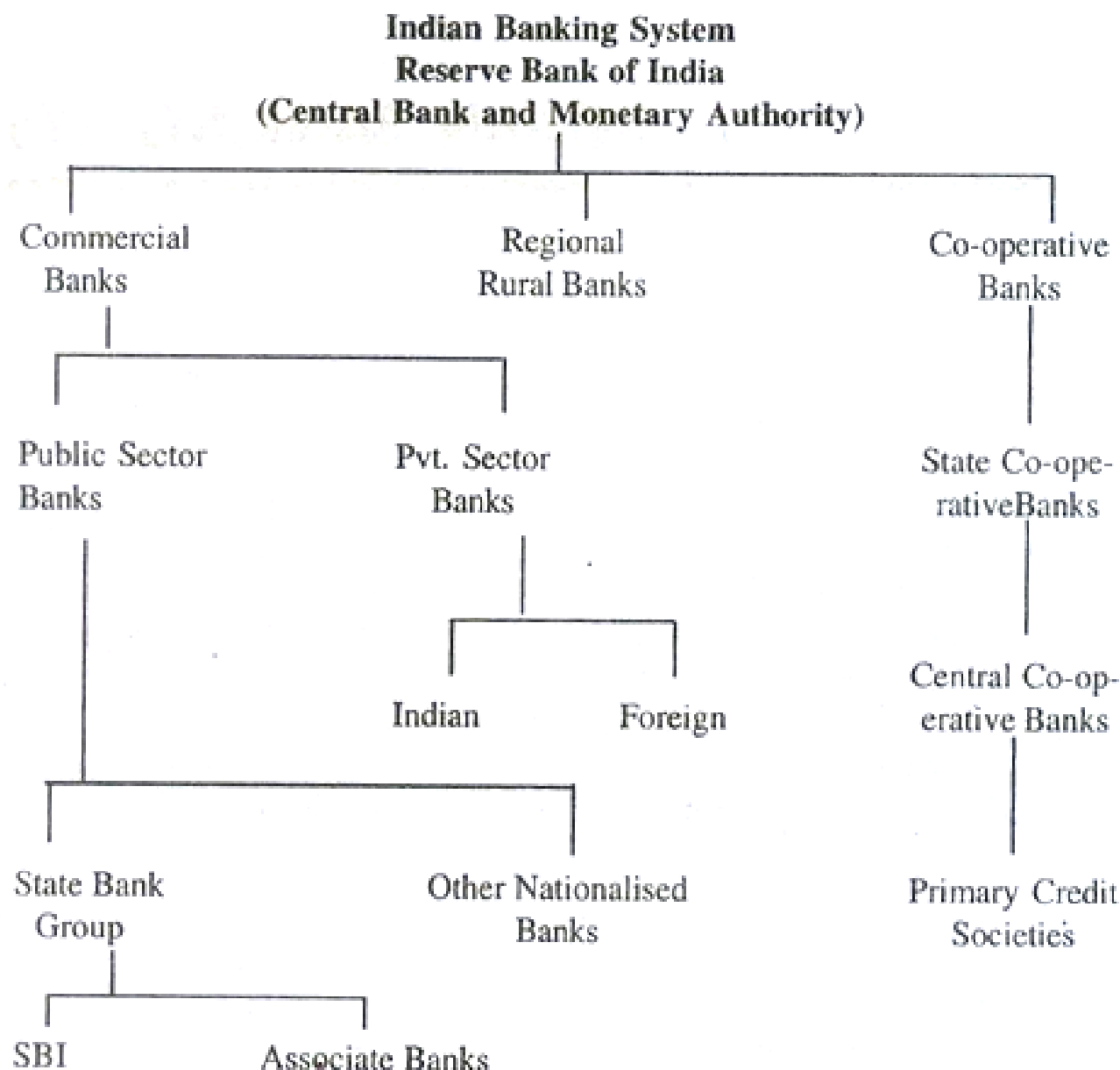
Indian banking structure are classify into the three types Commercial bank, Regional Bank, Co-operative Bank. the Commercial bank are classified into the two types public sector bank, private sector bank. As of September 2024, there were 141 commercial bank in India. As of September 2024, there were 165501 branches of scheduled commerce bank in India increase of the 117990. Public sector bank (12) are classify into the State Bank of group, other nationalised Bank. State Bank of group are classify into the SBI and association Bank.

At present, there are 43 Regional Rural Banks (RRBs) in India with 21,856 branches across 26 States and 3 UTs. They are sponsored by 12 Scheduled Commercial Banks (SCBs). Two of these RRBs are in Maharashtra: Maharashtra Gramin Bank and Vidharbha Konkan Gramin Bank.

In India, There are currently 33 state cooperative banks (SCBs), 328 district/central cooperative banks (DCCBs) and 88891 primary agricultural credit societies (PACSS) that are functional in India in 2024. In this section, we will discuss only the top 10 state cooperative banks currently functioning in India in 2024. As on 31st March 2023, 1 State Co-operative bank. 31 District Central Co-op. Banks, 3 Nominal Co-operative Banks and 341 Urban Co-op. That cooperative banks currently functioning in Maharashtra. National objectives and aspirations result in government regulations, which have a profound influence on the banking structure. Then Indian banking structural diagram given below.



Indian banking structure (Reserve Bank of India)



STRUCTURE OF INDIAN BANKING SYSTEM

Challenging in Banking Sector :-

There has been considerable widening and deepening of the Indian financial system in the recent years. The enhanced role of the Banking sector in the Indian Economy, the increasing levels of deregulation and the increasing levels of competition have placed numerous demands on our Banks. Hence, focus of RBI, the regulator & supervisor of Indian Banking system is at ensuring greater financial stability. While operating in this highly demanding environment, the banking system is exposed to various risks & challenges few of them are discussed as under

1 Improving Risk Management System

The current business environment demands an integrated approach to risk management. It is no longer sufficient to manage each Risk Independently. Banks in India are moving from the individual segment system to an enterprise wide Risk Management System.

2 Rural Coverage

Indian local banks specially state bank groups having a good coverage and many branches in rural areas. But that is quite lacking technical enhancement. The services available at cities are specifically not available to rural branches, which are necessary if banks want to compete now a day.

3 Technological Problems

That is true that Indian banks were already started computerized workings and so many other technological up gradation done but is this sufficient . but in banking sector many technological problem are involved.

4 Corporate Governance

Banks not only accept and deploy large amount of uncollateralized public funds in fiduciary capacity, but they also leverage such funds through credit creation. Banks are also important for smooth functioning of the payment system. Profit motive cannot be the sole criterion for business decisions. It is a significant challenge to banks where the priorities and incentives might not be well balanced by the operation of sound principles of Corporate Governance. If the internal imbalances are not re-balanced immediately, the correction may evolve through external forces and may be painful and costly to all stakeholders.

5 Customer Services

There are concerns in regard to the Banking practices that tend to exclude vast sections of population, in particular pensioners, self-employed and those employed in unorganized sector. Banks are expected to oblige to provide Banking services to all segments of the population, on equitable basis. Further, the consumers interests are at times not accorded full protection and their grievances are not properly attended to by Banks. Banks are expected to encourage greater degree of financial inclusion in the country setting up of a mechanism for ensuring fair treatment of consumers; and effective redressed of customer grievances.

6 Branch Banking

Traditionally Banks have been looking to expansion of their Branch Network to increase their Business. The new private sector banks as well as the foreign banks have been able to achieve business expansion through other means. Banks are examining the potential benefits that may accrue by tapping the agency arrangement route and the outsourcing route. While proceeding in this direction banks ought not to lose sight of the new risks that they might be assuming in outsourcing. Hence they have to put in place appropriate strategies and systems for managing these new risks.

7 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.

The guidelines were revisited in the context of the recommendations made by the financial action task force on Anti Money Laundering Standards and on Combating Financing of Terrorism. Compliance with these standards both by the banks/financial institutions and the country has become necessary for international financial relationships. Compliance with this requirement is a significant challenge to the entire banking industry to fortify itself against misuse by anti-social persons / entities and thus project a picture of solidarity and financial integrity of the Indian Banking system to the international community.

9 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.

10 Competition

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Advantage of Banking in India

The Indian banking sector is facing some problems and challenges.but These are as under Management of technological advancement However banks have some prospects in present environment. By converting threats into opportunities, the bank can have better advantages these opportunities are as under:-

1) Offering of innovative products

- 2) Door to door service approach
- 3) Customer relationship management
- 4) Professional approaches
- 5) Managerial excellence
- 6) Marketing and technological advancement
- 7) Branch expansion
- 8) Motivational HRM policies
- 9) Change in lending process
- 10) Total quality management concept

Disadvantage of Banking in India

During the post reform period and due to the situation of Liberalization, Privatization and Globalization, Indian banking sector is facing some problems and challenges. These are as under

- 1) Low Profitability and Productivity
- 2) Increase of Administrative Expenses
- 3) Survival of loss making branches
- 4) Lack of Professional Behavior
- 5) Problem of customer satisfaction
- 6) Depression period running over the country
- 7) Managing work force

Suggestion

- 1) the biggest challenge for Indian banking sector industry is to serve the mass market of India.
- 2) To better understand customers, the more successful will be in meeting their needs.
- 3) Technology up gradation is an inevitable aspect to face challenges.
- 4) Expansion of branch size in order to increase market share is another tool to combat competitors.
- 5) Indian nationalized and private sector banks must spread their wings towards global markets

Conclusion

Over the years, it has been observed that clouds of trepidation and drops of growth are two important phenomena of market, which frequently changes in different sets of conditions. 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 rural market, transparency, customer expectations, management of risks, growth in banking sector, human factor, global banking, environmental concern, social, ethical issues, employee and customer services. 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.

In This paper discusses the various challenges and opportunities like High transaction costs, 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. In This paper discusses the various advantage and disadvantage Indian banking sector and last point discuss suggestion. 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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