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OVERVIEW OF BANKING INDUSTRY IN INDIA: ISSUES AND CHALLENGES

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ABSTRACT:

There has been a revolutionary change in Indian Economy since the adoption of New Economic Strategy in 1991. This move had a great impact on all areas of life of India. Economic liberalisation unblocks the economic potential of the country by encouraging private sector and multinational corporations to invest and expand.

With the globalization trends all over the world it is difficult for any nation big or small, developed or developing, to remain isolated from what is happening around. Financial sector in general and banking industry in particular is the largest spender and beneficiary from information technology. In recent years, the banking industry around the world has been undergoing a quick transformation. The deepening of information technology has facilitated better tracking and fulfilment of commitments, multiple delivery channels for online customers. Information technology and the communications networking systems have revolutionized the working of banks and financial entities all over the world.

One major obstacle addressed here is security concern and scams occurring there from due to low security. Another issue challenged e-businesses (including E-banking) is quality and delivery of services etc. Innovations in the financial service sector is a key to making growth of Indian Economy by connecting hundreds of millions to banking system. The immense competition amongst the financial services sector has redefined the banking system and mode of operation of the service industry but yet there are many areas having a scope for improvement.

As there are still many frauds and scams occurring in the banking sector on daily basis, to control such scams and frauds some strong steps are need to be taken by Government of India. Here, in this paper researcher attempts to make a comparative analysis of the pre and post liberalisation scenario and impact of liberalisation on a banking sector and various issues and challenges in front of banking sector of India in particular.

KEYWORDS: *New Economic Strategy , online customers.*

"If Banks cannot truly be customer intimate, they are doomed to be just dumb commodities, acting behind the scenes, like utilities"

-JP Nicolos

HISTORICAL PERSPECTIVES:

During Narsimha Rao's government in 1991, India met with the economic crisis which had occurred due to external debt. Government was unable to make the payments for borrowings it had made from foreign countries. Such occurrence of debt led to adoption of new measures to reform the conditions of Indian Economy.

There has been a revolutionary change in Indian Economy since the adoption of New Economic Strategy in 1991. This move had a great impact on all areas of life of India. Economic liberalisation unblocks the economic potential of the country by encouraging private sector and multinational corporations to invest and expand.

With reference to developing economies, this term denotes the opening up of economy to world. Expanding the economic borders of the country to foreign and multinational investments. Liberalisation has led to removal of the barriers on trade and exchange on a global platform. These may include barriers of taxation and laws, foreign investment restrictions, trade barriers, geographical barriers and many more. This policy brought many new innovations to the banking sector in India and challenges to the existing banking industry as well. It had both positive and negative impacts on Indian Economy.

Positive impacts such as free flow of capital, increased stock market performance, reduced political risks and negative impacts such as Impact of Foreign Direct Investments (FDIs) in banking sector, Threat of entering multinational companies to Indian economy etc. The main purpose behind undergoing this New Economic strategy of 1991, commonly referred to as LPG (Liberalisation, Privatization and Globalization) model was to make the economy of India the fastest developing economy.

The history of India's economic growth particularly in banking sector is divided into three phases:

Phase I (1786 to 1969): Early phase of Indian Banks
Phase II (1969 to 1991): Nationalisation of Indian Banks
Phase III (1991 onwards): Liberalisation and its aftermath

Between 1950 and 1980 India grew at an annual rate of 3 to 3.5 percent, which was also referred to as the "Hindu rate of growth." But 1991 saw the nation entering into a new phase of economic policies. For the first time India saw a shift away from its socialist ideologies. The impetus for these reforms started in 1980s when Rajiv Gandhi became the Prime Minister and brought some macro-economic changes.

In a pre-independence era at the end of late 18th Century there was hardly any banks existing in India. Most of the banks opened during that period could not survive and failed. Subsequently, banking in India remained the exclusive domain of European for next several decades. In the mid of the 19th Century, The East India Company established the Bank of Bengal (1809), Bank of Bombay (1840) and the Bank of Madras (1843). These independent units initially were later merged in 1920, as Imperial Bank of India, which had European Shareholders. Later many more banks were set up such as, Allahabad Bank followed by Punjab National Bank, Bank of India etc. Reserve Bank of India came into in existence 1935. Later Imperial Bank of India was nationalised and came to be known as State Bank of India. Later in 1959 7 subsidiaries of SBI were also nationalised and lastly in 1980 there were 6 banks having deposits of over 200 crores were nationalised. As a part of financial sector reforms there took place paradigm shift in the banking system of India during the period of 1991-1997. The implementation of Narsimham Committee report gave a fillip to the process. There was a major set-back in banking industry which came in the form of securities scam of 1992. The committee recommended following reforms namely Autonomy in Banking, Reform in the Role of RBI, Stronger Banking System, Zero Non-Performing Assets, Capital Adequacy and tightening of provisioning norms, Entry to the foreign banks. After implementations of these reforms in Phase III Banking sector of India is what as it stands today. Certain trends like growing competition in financial service market, innovations in the supply of financial product, E-banking, mobile banking and UPI have emerged in the recent past. Which are demanding more evolutions in the banking sector of India.

PREFACE OF BANKING INDUSTRY IN INDIA:

The system of Banking in India is as old as early Vedic Period. The development of bank has shown such a rising graph since 20th Century that in fact, they come to be called "BACKBONE" of trade and commerce. Banking in India has developed from primitive stage to the modern system of banking.

Hence, with the emerging trends of LPG model, country also has adopted the new ways and means of banking, such as adoption of "E-Banking", "Mobile Banking", "UPI (Unified Payment Interface)". But banking sector is facing several major challenges and issues due to such technological advancement. One of the key factor for the growth of Indian Economy is to connect millions of people thorough banking system. But, the basic issue is the quality and delivery of services particularly in E-Banking. Due to poor security many banks have to face the security scams in banking industry. The immense competition amongst the financial services sector has redefined the banking system and mode of operation of the service industry but yet there are many areas having a scope for improvement. As there are still many frauds and scams occurring in the banking sector on daily basis, to control such scams and frauds some strong steps are need to be taken by Government of India. Here, in this paper researcher attempts to make a comparative analysis of the pre and post liberalisation scenario and impact of liberalisation on a banking sector and various issues and challenges in front of banking sector of India in particular.

OBJECTIVES OF STUDY:

The study has following objectives

1. To study pre and post liberalisation scenario in banking sector of India
2. To analyse impact of liberalisation on banking industry
3. To illustrate changing trends in banking sector
4. To discuss various issues and challenges faced by banking industry in India

HYPOTHESIS:

- Technological innovations in the banking sector can employ to tap into underserved market with significant social returns.
- This can also bring the paradigm shift from traditional banking to advance banking in the technological era.
- This will not only bring down the cost of operation but also it will provide customer friendly services and can grow the confidence of the consumers.

RESEARCH METHODOLOGY:

The present study is based on the secondary data collected from various sources like books, websites and web articles and published articles and published data from RBI website. With the help of this data an attempt is made to find out the issues and challenges in front of Banking Sector of India.

Why was Liberalisation needed in Banking Industry?

Economic liberalisation refers to removal of restrictions or liberalise the rules and regulations for encouraging the economic development of country. Although, the process is often associated with privatization, but it is altogether a different process. The term liberalisation is used to refer to the trade liberalisation or capital market liberalisation but most often it's used to refer to the economic liberalisation.

Under the chairmanship of Mr. M. Narsimham who was 13thGovernor of RBI, the committee was formed for the purpose of Banking Sector Reforms. It was framed for the first time in 1991 but only few of its recommendations turned into Banking Sector Reforms then, it was again set up in 1998.

Following problems were identified by Narsimham Committee:

1. **Directed Investment Programme:** Committee had objected on a system of maintenance of high liquid assets by commercial banks. It's is also known as SLR (Statutory Liquidity Ratio) In those days India's SLR was at peak i.e. 38.5%. Years 1988-1992 were tough. As per the committee's opinion, that was one of the reasons for poor profitability of banks. Similar was the case with Cash Reserve Ratio which was at peak i.e. 15% during the same period of time.

2. **Direct Credit Program:** As per the committee's opinion, there was no need to provide loans to different sectors at subsidised rates. As these sectors were manipulated by government, by increasing SLR rates on one hand and promoting the theory of subsidised loans. Though it was called to be a successful move on one front, it was affecting the profitability of Banks by increasing number of bad loans. Hence, committee recommended to phase out the directed credit programs.
3. **Interest Rate Structure:**The interest rates prior to economic reforms were largely influenced by Government, it was found that government used bank funds at cheap rates under the SLR. Also, the privileged customers had powers of negotiations hence, charging all costs to unprivileged/ retail customers. The committee suggested to restructure the interest rates of Indian banking system.

With these findings, Narsimham's Committee prepared report in two parts. Narsimham's Committee Report-I was given in the year 1991 which had major recommendations regarding Banking Sector Reforms. Later committee was again formed in 1998 which gave further suggestions, in Narsimham's Committee Report-II.

Narsimham's Committee Report I - 1991

The recommendations of the committee were as follows:

1. **Reduction in SLR and CRR**
2. **Phasing Out Directed Credit Programme**
3. **Interest Rate Determination**
4. **Structural Reorganizations of Banking Sector**
5. **Establishment of ARF Tribunal**
6. **Removal of Dual Control**
7. **Banking Autonomy**

Narsimham's Committee Report II – 1998

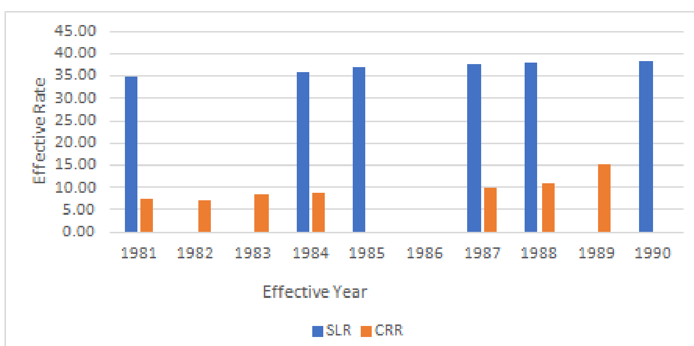
1. **Strengthening Banks in India**
2. **Narrow Banking**
3. **Capital Adequacy Ratio**
4. **Bank Ownership**
5. **Review of Bank Laws**

PRE and POST LIBERALISATION SCENARIO:

1. **Reduction in CRR and SLR:**

A decade before liberalisation

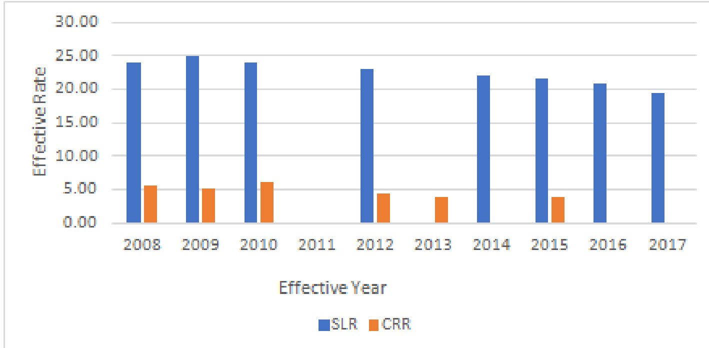
Effective Year	SLR	CRR
1981	35.00	7.50
1982	-	7.00
1983	-	8.50
1984	36.00	9.00
1985	37.00	-
1986	-	-
1987	37.50	10.00
1988	38.00	11.00
1989	-	15.00
1990	38.50	-



Source: RBI Journals

A decade after liberalisation

Effective Year	SLR	CRR
2008	24.00	5.50
2009	25.00	5.00
2010	24.00	6.00
2011	-	-
2012	23.00	4.25
2013	-	4.00
2014	22.00	-
2015	21.50	4.00
2016	20.75	-
2017	19.50	-



Source: RBI Journals

Where, SLR: Statutory Liquidity Ratio
CRR: Cash Reserve Ratio

From the above diagram it can be easily observed that Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) have been reduced over the years. Post Nationalisation phase CRR and SLR rates were increasing. In the year 1988-89 both CRR and SLR were at peak points i.e. 37 and 15 per cent respectively. Due to high CRR and SLR government was manipulating the loans and the costs of interest were borne by unprivileged customers. Hence, India's banking sector was highly under the control of Government. Therefore, there was a need to control the statutory pre-emption. Gradually CRR was reduced to 4.5 percent in 2003.

2. **Directed Credit Programmes:** Basically, these programs were encouraged post nationalisation by Government, these programs aimed at lending to small scale industries at concessional rates of interest. Which later came to be known as priority sector lending. During the nationalisation phase of banks, the priority sector lending target were raised to 40 per cent, however, the objective behind policies was to promote a more equal distribution of funds but also it led to inefficiencies in the banking sector. Though it was a successful move from government's point of view, but it affected the commercial banks in bad manner. The quality of loans was deteriorated.To reduce this effect, there was step taken for liberalisation in late 19th Century. Conventionally, the objective of Priority Sector Lending(hereinafter PSL) has been to ensure that comparatively weaker sections of the society get access to credit and that there is adequate flow of resources to those segments of economy having relatively high potential for employment generation and help in the poverty alleviation.

However, in last four decades Economy of India has undergone not only through a structural transformation but has also national priorities have got shifted from lending to vulnerable sections to increase in employability, creation of basic infrastructure and improving competitiveness of economy etc. Following table shows the statistics of share of Priority Sector advances in total credits of commercial banks in pre-liberalisation and post- liberalisation, when for the first time M. Narsimham Committee was formed to recommend on economic sector reforms in 1991.

Since 1980 there was an increasing trend in PSL. Commercial banks were given high targets by RBI. Public and private sector banks were asked to lend 40% of portfolio to PSL by 1985. After the first wave of liberalisation in the year 1991 the problem of decreasing profitability and deteriorating quality of loans was observed by economic reforms committee, hence it recommended the stopping of this scheme.

A. When PSL was initially formalised in 1972 with the recommendations of informal study group. It constituted following sectors:

- Agriculture
- Small Scale Industries
- Industrial Estates
- Road and water transport operators
- Retail Traders
- Professional and self-employed persons
- Education

Public sector banks were asked to lend one third of its outstanding credit portfolio to PSL.

B. As per the circular of RBI dated July 7, 2016, Eight Categories were identified under the priority list.

- Agriculture (which includes sub categories namely Farm Credit, Agriculture Infrastructure and Ancillary Activities)
- Micro Small and Medium Enterprises (MSME's)
- Export Credit
- Education
- Housing
- Social Infrastructure
- Renewable Energy
- Others

Priority Sector Lendings

Categories	**Domestic Scheduled Commercial Banks and Foreign Banks with 20 Branches and above**	**Foreign banks with less than 20 Branches**
Total Priority Sector	40 per cent of Adjusted Net Bank Credit (ANBC) or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher	40% of ANBC of Off Balance Sheet Exposure, whichever is higher, to be achieved in phased manner by 2020**
Agriculture	18% of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher	N.A.
Micro Enterprises	7.5% of ANBC or Credit Equivalent Amount of Off-Balance Sheet exposure, whichever is higher.	N.A.
Advances to weaker sections	10% of ANBC or Credit Equivalent, Amount of Off-Balance Sheet Exposure, whichever is higher	N.A.

** The total priority sector target of 40 per cent for foreign banks with less than 20 branches has to be achieved in a phased manner as under –

Financial Year	The Total Priority Sector as percentage ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher
2015-16	32
2016-17	34
2017-18	36
2018-19	38
2019-20	40

C. As per the updated circular of RBI dated June 18, 2019, Seven Categories are covered under the priority list.

- Agriculture
- MSME's
- Education
- Social Infrastructure
- Renewable Energy
- Others

RRBs will have a target of 75 per cent of their outstanding advances for priority sector lending and sub-sector targets as indicated in table below.

Categories	Targets
Total Priority Sector	75 per cent of total outstanding
Agriculture	18 per cent of total outstanding
Small and Marginal Farmers	8 percent of total outstanding
Micro Enterprises	7.5 per cent of total outstanding
Weaker Sections	15 per cent of total outstanding

Looking at the above information, the structural transformation of PSL in pre-liberalisation and post-liberalisation era can be traced through systematic allocation between several categories as specified above. Hence, the motive behind directed credit programme to have equal distribution of funds can be achieved in a systematic manner.

3. Interest Rate Deregulation:

Deregulation of interest rate happened as follows–

i. **After independence:** Interest Rates were highly regulated by RBI. Also, government used bank funds at a cheap rate under the SLR while it also advocated for subsidized lending rates to few sectors. Which brought banks to incur losses as many were availing undue advantage of such subsidized lending schemes.

ii. **Post economic reforms:** Lending rates were deregulated for loans of Rs. 2 lakhs and above. Banks were given freedom to determine lending rate for loans of Rs. 2 lakhs and above. As Prime Lending Rate (PLR) which was rigid and inflexible in relation to overall direction of interest rates in the economy, the Benchmark Prime Lending Rate (BPLR) system was introduced. RBI noticed that banks were misusing it by lending money at lower rates than BPLR to privileged whilst the costs were passed on to retail customers who lacked negotiation power (also known as cross-subsidization) hence the core objective behind this system was not satisfied i.e. attaining transparency. It was time for refinement of the assessment of lending rates. Base Rate System was introduced in July 2010 with an objective of enhancing transparency in fixing lending rate and facilitating the monetary policy transmission. Under this system banks were required to announce a base rate which would be fixed minimum rate of banks in all circumstances. Besides it being powerful, it did not achieve the objective of transmission of monetary policy, due to computation methodology which was mandated by RBI. Later was introduced Marginal Cost of fund Based Lending Rate (MCBLR) w.e.f. 1st April 2016

4. Structural Reorganizations of the Banking Sector: The economic reforms in 1991 recommended restructuring of commercial banks in the country. The Narsimham Committee Report-I recommended to reduce the number of public sector banks moreover, Entry gates were newly opened for private sector banks in 1993. Accordingly, committee suggested the structure of board. A board should consist of:

i) SBI along with other three to four large banks should become international in character
ii) Eight to Ten banks should be national banks and spread their network of branches across the nation.
iii) Other banks will remain as local banks with their operations confined to certain specified boundaries.
iv) RBI should permit entry to private sector banks and stop further nationalisation of banks
v) For increasing competitive efficiency RBI should allow to open offices of foreign banks in India.

5. Prudential Norms and Health of Indian Banking: Right from beginning of financial sector reforms, the important task given to policy makers was to bring an appropriate regulatory framework. An appropriate regulatory framework is designed to encourage competition, bring efficiency in banking and at the same time ensure safe and sound banking. The guidance on design of regulatory mechanism was brought by Narsimham Committee Report-I. The framework is also known as "Prudential Regulation".

The prudential regulatory framework of banks has been designed to address the following issues:
A. Market Structure
B. Capital Adequacy Norms
C. Accounting and Provision of NPAs
D. Privatization of Banks

Amongst which most important components of prudential regulation of banks is the maintenance of minimum capital ratios and accounting for NPAs. The Basel Committee on banking regulation and supervisory practices, known as Basel-I recommended the adoption of capital adequacy standards also known as cook ratio. The committee stipulated maintenance of capital to risk weighted assets ratio (CRAR). This ratio is a weighted average approach to capital adequacy so that institutions with higher risk profile will maintain adequate level of capital. The CRAR was suggested to be 8 per cent by Bank of International Settlement. As per the Narsimham Committee Recommendations, all banks in India must reach the figure by March 1996 in a phased manner. 13 out of 27 Public Sector Banks(PSBs) could reach the figure by 1996. 11 banks had reached 4 per cent and rest were below 4 per cent. The aggregate CRAR of all Scheduled Commercial Banks (SCBs) was 11.3% in year 1998-99. Later, CRAR of Indian banks which had been on steady rise stood at 13.6 per cent as on 2009-10. As per the recent statistics of RBI CRAR stands 13.8% wherein, 1 bank has CRAR below 9 per cent, 6 banks between 9 to 10 per cent and 80 banks are having CRAR above 10 per cent.

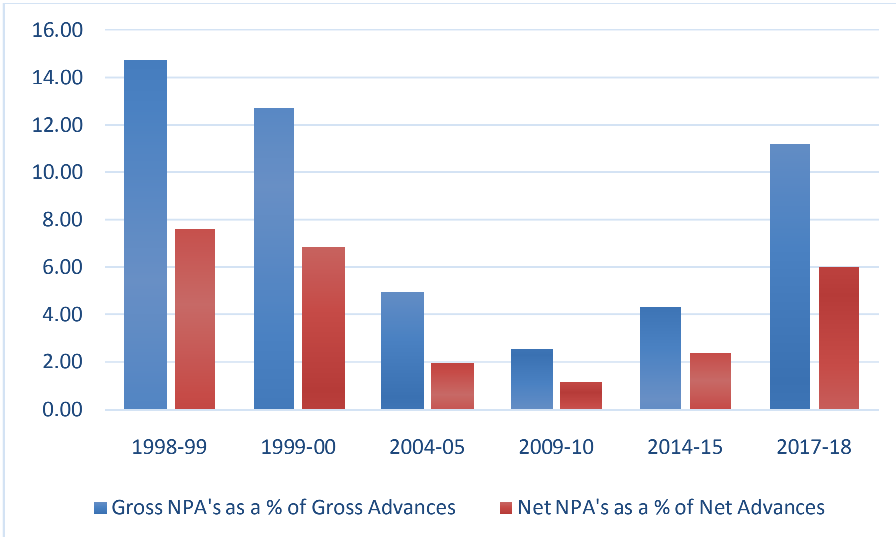
6. Asset Quality Indicators: Along with, maintaining of capital adequacy norms, committee also focused clearing bad assets in the balance sheets of SCBs most importantly of Public Sector Banks.

Non-performing Assets of Indian Banks

Year Ended	Gross NPAs as a % of Gross Advances	Net NPAs as a % of Net Advances
1998-99	14.70	7.60
1999-00	12.70	6.80

2004-05	4.90	1.90
2009-10	2.50	1.10
2014-15	4.30	2.40
2017-18	11.20	6.00

Source: RBI data compiled and edited



As it can be observed from above diagram, there was an increasing trend of Non-Performing Assets (NPA) in public sector banks and Development Financial Institute in late 19th century, in 1998-99 it almost reached 15%. As the bad debts were increasing there was a need to take precautionary measures hence, the economic reforms committee came up with establishment of Asset Reconstruction Fund (ARF). Later it got reduced, by 2004-05. NPA was lowest in the year 2007-08 i.e. 2.4%. By 2017-18 it was expected to raise to 11.20 (Provisional gross NPA) but, actually it rose to 11.2% (overall). Amongst which, gross NPA of public sector banks stood at 14.6 per cent in 2017-18. As per the recent reports NPA of country's banking industry have declined more than the expectations of RBI for FY. 2018-19. "System wide NPAs for the year 2018-19 have declined to 9.3 percent as on 31st March 2019. It's a positive sign of possible recovery from harmed asset load. Bad loans accelerated largely because of RBI pushed them to show the real stress in the balance sheet. However, according to state finance minister Shiv Pratap Shukla, the present shift of NPA is the result of "four R" strategy of government namely recognition, resolution, recapitalisation and reforms

7. **Automation in Banking:** It was one of the recommendations of Narsimham Committee, 1991. In order to bring regulation and reforms in banking industry, it was a need of an hour to adopt latest technology. In the increasing trends of globalization world-wide one cannot remain isolated from such developments. Moreover, IT stands as a strong support system on front end and back end too. It helps in automating the majority of day-to-day transactions.

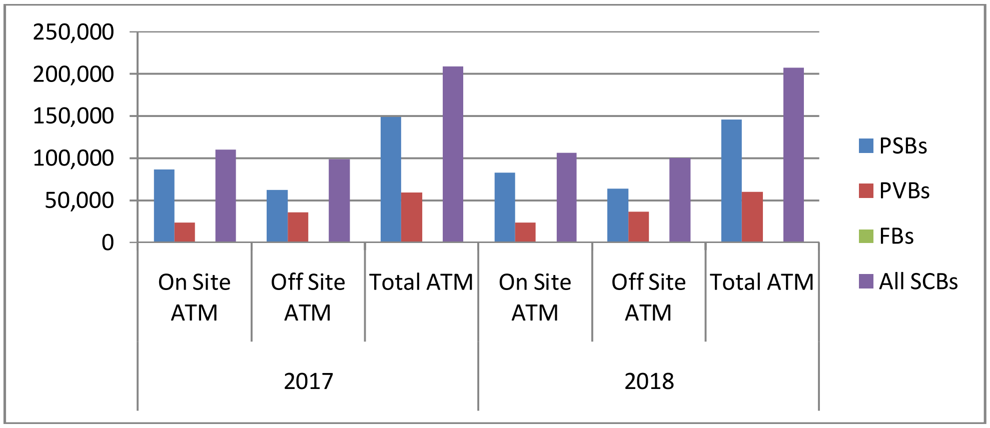
Recent Trends in Banking –

A. **ATM:** The automated teller machine or ATM is a machine operated by customer himself. It is such a complicated piece of technology but, makes human life easier. It was made available at the doorsteps of customer to let him withdraw the amount from his account 24X7. Initially only the withdrawal of amount was facilitated in ATMs but with increasing advancements in IT, now person can easily avoid standing in long ques for depositing the amount and easily it can be done in ATMs.

The number of ATMs- PSBs/ PVBs/ FBs/All SCBs

Sr. No.	Bank Group	2017			2018		
		On Site ATM	Off Site ATM	Total ATM	On Site ATM	Off Site ATM	Total ATM
I	PSBs	86,545	62,010	1,48,555	82,733	63,235	1,45,968
II	PVBs	23,045	35,788	58,833	23,829	36,316	60,145
III	FBs	219	747	966	214	725	939
IV	All SCBs	**1,09,809**	**98,545**	**2,08,354**	**1,06,776**	**1,00,276**	**2,07,052**

Source: RBI



B. Electronic Payment Services: It is mainly based on e-facilities such as, e-governance, e-mail, e-commerce, etc.

C. Real Time Gross Settlement (RTGS): RTGS acts as a helping hand to faster movement of funds and information among various constituents of funds. It is a secured mode of transferring funds electronically. Similarly works, National Electronic Funds Transfer (NEFT), Immediate Payment Service (IMPS), Unified Payment Interface (UPI), E-wallets and other online modes of transfer.
The position of remittances through payment banks during 2017-18

(Numbers in million and amount in Rs. Million)					
		Inward Remittances		Outward Remittances	
Sr. No.		Number	Amount	Number	Amount
1	NEFT	1.0	9645.0	2.0	90613.0
	%	**0.1**	**3.2**	**0.2**	**18.2**
2	RTGS	-	20098.0	-	31737.0
	%	-		-	**6.4**
3	IMPS	6.0	9622.0	29.0	77032.0
	%	**0.4**	**3.2**	**3.6**	**15.5**
4	UPI	200.0	16484.0	213.0	23432.0
	%	**13.9**	**5.5**	**26.4**	**4.7**
5	E-Wallets	1232.0	243368.0	559.0	265479.0
	%	**85.6**	**81.0**	**69.3**	**53.4**
6	Others	0.4	1134.0	4.0	9223.0

	%	**-**	**0.4**	**0.5**	**1.9**
	Total	1439.0	300352.0	807.0	497516.0
	%	**100.0**	**100.0**	**100.0**	**100.0**

Source: RBI publications 2018

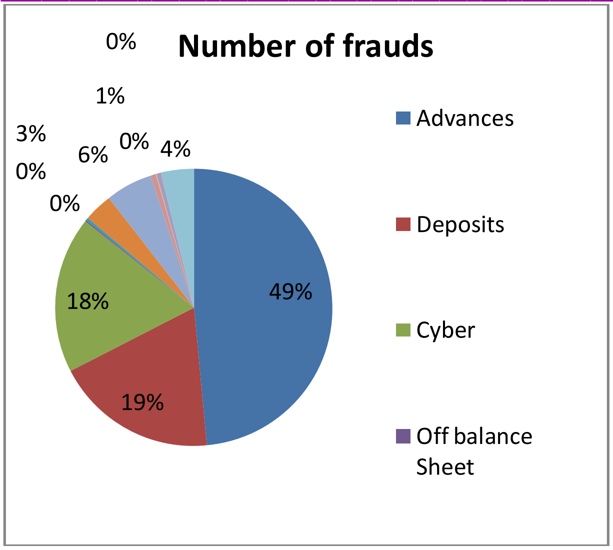
FRAUDS IN BANKING SECTOR: As in the era of Post-Independence banking sector was growing in phases. Many banks were nationalised and merged in the era of mid-19th Century and banking sector started taking a shape. But there took place crisis in year 1991 largely due to inefficient management of Indian Economy. Government was generating revenue but it was insufficient to pay off the debts it borrowed, hence caught up in debt-trap. Government of India came up with the idea of Liberalisation, Privatisation and Globalisation in year 1991, under the chairmanship of M.Narsimham. There started emerging new trends in Indian Banking Sector such as, entry to private sector banks, free trade practices, technological advancements and many more. With emerging trends in banking sector in a post-liberalisation era, banks started developing by adoption of new ways and means of banking. Undoubtedly the development was helping banking sector to grow and it made banking easy to the customers. With adoption of E-banking, NEFT and UPI the volume of banking transactions increased as it can be seen from previous data. But, still there are loopholes in the system resulting into increasing number of frauds happening in Indian Banking Sector. As RBI reports reflect, frauds have become the most serious concern in the management of operational risk, majority i.e. 90% of them have been located in credit portfolio of banks. However, in 2017-18 off balance sheet operations, foreign exchange transactions and cyber activity have taken a centre place. To speak about in monetary terms, frauds in the banking sector increased sharply in 2017- 18 mainly reflecting a large value case in the jewellery sector. Incidentally, the quantum of frauds in Private Sector Banks accounted for about 6% whereas, in public sector banks is about 93 percent

Frauds in various banking operations

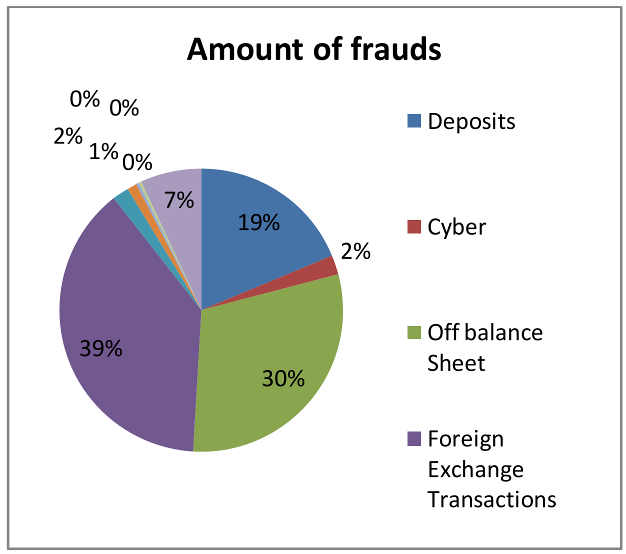
(Cases in Number and amount in Rs. Million)

Areas of Operation	**2014-15**		**2015-16**		**2016-17**		**2017-18**	
	No	**Amount**	**No**	**Amount**	**No**	**Amount**	**No**	**Amount**
Advances	2,251	1,71,222	2,125	1,73,681	2,322	2,05,614	2,526	2,25,590
Deposits	876	4,369	757	8,087	695	9,027	691	4,567
Cyber	845	517	1,191	402	1,372	423	2,059	1,096
Off balance Sheet	10	6,994	4	1,324	5	633	20	1,62,877
Foreign Exchange Transactions	16	8,987	17	508	16	22,010	9	14,258
Cash	153	431	160	220	239	365	218	403
Cheques/demand drafts	254	261	234	250	235	404	207	341
Clearing, etc. accounts	29	68	17	866	27	57	37	56
Inter-branch accounts	4	3	4	101	1	4	6	12
Non-resident accounts	22	76	8	88	11	34	6	55
Others	179	1,623	176	1,460	153	768	138	2,421
Total	**4,639**	**1,94,551**	**4,693**	**1,86,988**	**5,076**	**2,39,339**	**5,917**	**4,11,677**

Source: RBI.



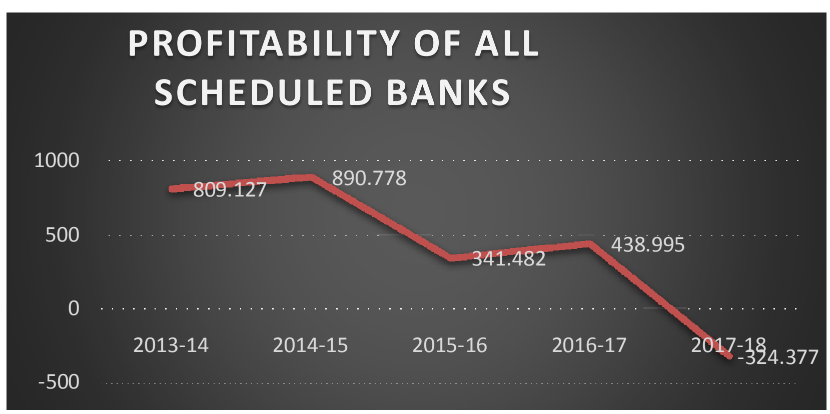
As it can be seen from table given above the frauds are increasing with emerging trends in banking sector, for earlier years, there used to be frauds related to advances and Non-performing Assets or bad loans. But, with increasing technological developments, there are occurring cyber frauds, which involves forgery, phishing etc. Hence, there needs to be taken strong measures as rising number of frauds are affecting profitability of banking sector in India.



Profitability of all scheduled banks

Financial Year	Net Profit(Rs. In Billion)
2013-14	809.127
2014-15	890.778
2015-16	341.482
2016-17	438.995
2017-18	-324.377

Source: RBI Bulletin



After analysis it has been found that, frauds largely affect profitability of banks. Hence, some strong measures need to be taken to reduce the loopholes in the banking system.

CONCLUSION:

Banks have grown as a big market player since last two decades. The growth that banking industry has shown since late 1990's is remarkable. As said earlier, banks are the life blood of the business hence called "BACKBONE" of service industry as a whole. They have played an important role in expansion of service industry and Indian Economy. The long-held promise of digital banking just has been fully kept. This technological revolution was supposed to solve the hardships of customers', yes it has fulfilled the motive but, also has created the new problems. The changing trends in banking sector have brought transformational shift in the mode of working of banks in India. The economic sector reforms in, 1991 brought the first wave of change to the service industry and it worked well on all the areas of service sector especially on financial service industry. But, in order to make country a faster developing economy there are yet many changes to be done as per the experts' opinions. In order to attain financial stability, India has undergone many ups and downs in the economy and yet many to come.

The period after financial crisis, called for major economic sector reforms, many banks and financial institutions are in place now, the use of central clearing has increased and collateralisation is now widespread. However, reforms have not yet been implemented in order to bring financial stability in real sense. Reports reflect the current state of global banking is a story of uncertainty. Most importantly, banks are facing challenges such as, increasing competition from non-traditional players such as Big-techs, Fin-techs they are taking massive advantage of digital innovation. Such market players surely affect the growth of developing economies like India.

Government is undergoing many hardships to control financial stress in the economy and make it a developed one. As the study shows, there are many factors impacting India's banking sector in a positive way. There are many aims yet to be achieved by Banking Industry.The strength of Indian banking lie in withering storms and rising up to the expectations from all the quarters-catching up with all the global trends is a matter of time. One size doesn't fit all. Many banks find that the best way to get ahead is to expand ownership boundaries through mergers and acquisitions.

CHALLENGES FACED BY BANKING INDUSTRY:

1. **Issues regarding cyber security in banking:** With technological advancements, there also exist some loopholes. One major concern for the same is increasing number of cybercrime cases. Due to which the adoption of E-banking may be held at stake. Hence, it becomes a bigger challenge to financial sector to control such frauds.
2. **Maximisation of efficiency of banks:** Indian banking sector still lacks having efficiency of customer retention. The banks need to find the best possible way to deliver the services. As can be seen, customer of today's era is bending more towards digital banking. Hence, banks should accept the challenge of providing best quality services in least possible time to retain the customers' life-long.
3. **Employee retention in banking industry:** Unlike increasing technological advancement in banking, there can be seen decreasing trend of employee retention with banks. As few are aware of new technology, handling new instruments becomes a task to the employees of financial sector. Also, the IT sector is more bending towards introducing customer friendly products, therefore there is hardly need of employees to perform daily functions of banks. This brings another challenge of employee retention and employment generation as well.

   But the digital banking revolution has begun, and it will not end till the last institution has crossed the digital divide.

ROADMAP AHEAD:

While having a look at growth of banking, it happened in a phased manner and it was largely generational. From the phase where banking used to be supremacy of Europeans to the era of open banking, there has been a great shift in the contribution of banking sector to economic growth.The digital banking comes up with many new opportunities and challenges as well. With the increased usage of IT in banking sector, many new benefits and challenges have occurred to the banking industry. Besides being useful to all, this technological revolution has brought many risks along with it.

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