REVIEW OF RESEARCH
IMPACT FACTOR : 5.7631(UIF) UGC APPROVED JOURNAL NO. 48514 ISSN: 2249-894X

VOLUME - 8 | ISSUE - 3 | DECEMBER - 2018

INFLUENCE OF SOME CHALLENGES AND GROWTHS FOR BANKING SECTOR IMPROVEMENTS ON BANKING SYSTEM IN INDIA

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ABSTRACT

Emerging markets and developing economies confront one of the central issues to be specific fortifying of financial systems. This is because of the reason that sound financial systems fill in as an essential channel for the accomplishment of economic growth through the activation of financial savings, putting them to beneficial utilize and exchanging different dangers. Many countries embraced a progression of financial sector advancement measures in the late 1980s and mid 1990s that included loan cost advancement, passage deregulations, diminishment of hold prerequisites and evacuation of credit allocation. By and large, the planning of financial sector progression harmonized with that of capital record advancement. Domestic banks were offered access to cheap loans from abroad and apportioned those assets to domestic production segments. Since the Asian financial crisis of 1997- 1999, the significance of balancing financial advancement with sufficient direction and supervision before full capital record progression has been progressively perceived. The emergency was gone before by gigantic, unnoticed short - term capital inflows, which at that point bothered twofold confuses and undermined the soundness of the domestic financial sector. A development jumble is by and large inalienable in the banking sector since commercial banks acknowledge here and now stores and change over them into moderately longer-term, frequently illiquid, resources. By the by, monstrous, overwhelmingly here and now capital inflows-generally as between bank credits abbreviated banks' liabilities along these lines growing the development confound. This paper concentrates on India's banking sector, which has been pulling in expanding consideration since 1991 when financial reform rogram was propelled. This paper throws light on some of the Growths that have occurred in the Indian banking sector and challenges for the banking sector because of procedure of banking Improvement started in 1992.

KEYWORDS: *Influence, Challenges, Growths, Banking Sector, Improvements, Banking System, India.*

INTRODUCTION

India faced a full scale financial emergency in 1991. The foreign exchange serves fund touched a low. The nation turning into a defaulter in payments appeared as sensible probability. The economy was growing at an extremely low rate. This set the Government of India on a way of advancement and globalization of Indian economy. The procedure of Improvement naturally needed to begin from financial sector Improvement. From 1947 to 1990, there was amazing augmenting of the banking system, which is the most important constituent of financial sector. Be that as it may, toward the finish of 1990, there was a general accord that the banking system has not turned out to be sufficiently sound as it ought to have been. There was cause for genuine worry by virtue of poor financial conditions of commercial banks, a large portion of which were in public-sector. Some of these banks had turned out to be unrewarding, under promoted with abnormal state of nonperforming resources. The concealed nonperforming resources were equipped for activating off a noteworthy financial crisis. The banks were no place close to the international level standards with respect to capital sufficiency, accounting practices and so on in a globalized economy, it debilitated to end up plainly a major disadvantage. Out of such concerns, Government of India designated a high level committee headed by Shri. M. Narasimham, a previous Governor of the Reserve Bank of India to address the problems and propose the remedial measures.

Review of Literature: The recommendations of the committee became the basis of financial sector and banking sector Improvement.

Growths in The Banking Sector: Banking industry has changed massively since 1969. Banks, apart from playing out their customary capacities, have turned out with new sorts of financial services viz renting, factoring, insurance, venture capital, housing finance, consumer finance, merchant banking and mutual funds and so forth. Growths that have occurred in the banking industry because of the procedure of Improvement is examined underneath.

Reduction in SLR and CRR: The recommendation in regards to diminishment of Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) has been overwhelmingly executed. The compelling SLR has been brought down to 25% The CRR likewise has been cut down a few times. It is currently being utilized all the more often as an instrument of monetary policy.

Higher Interest Rates: One of the reasons for low gainfulness of the banks was a high pre-emption of assets through SLR and CRR and that too at very low return. The Government of India utilized these assets as financing of its own operations at low-cost; the arrival to the banks was lower than the cost of raising these funds. Through number of steps the profits on these funds have been improved. The heading of Improvement is that Govt. will pay in any event the cost of ascending of such funds.

Bank Supervision: Board of Financial supervision has been set up. It supervises banks, financial institutions and NBFC'S. A new approach to 'On-Site' supervision was put into force in July 1997.

Branch Licensing: Branch licensing has been liberalized. Domestic banks satisfying capital adequacy norms are free to start new branches. Banks can close down loss making unviable branches except rural branches.

Bank's Access to Capital Market: Nationalized banks have been permitted to raise capital from public up to 49% of the capital.

Valuation of Bank's investment in Government securities:

Valuation norms of investment in Government are being brought on par with international practices.

Branch Licensing: Branch licensing has been liberalized. Domestic banks satisfying capital adequacy norms are free to start new branches. Banks can close down loss making unviable branches except rural branches

Turning into Buyer's Market: Earlier the credit market was seller's market; a good part of finance market has become buyer's market. Banks take pain to live up to the expectations of customers. Adoption of new technologies has become easier.

Capital Adequacy Norms: Narasimham Committee-I recommended phased introduction of Bank of International Settlements norms regarding capital adequacy ratio.

Directed Credit: Number of directed credit categories has been reduced. The interest subsidy on directed has also been reduced; return on loans to SSI Units has also been increased

Prudential Accounting Standards: Prudential accounting norms regarding income recognition, asset classification and provisioning have been implemented in a phased manner. Currently, these norms are close to international standards

Change in the Approach of Banks: The deregulation of interest rates has changed the basic approach of managing these banks. Earlier the pricing of loans was based at a common 'cost plus profit' basis. It was a process based administration. Now, the pricing of loans has become free. The banks have developed their own 'risk assessment' model. Different risks have to be suitably identified and the price of the loan has to be determined accordingly

Setting up of New Banks: An important Growth has been easing of norms for entry in the field of banking. This has resulted in significant increase in the number of new private sector banks and increase in the network of foreign banks. These new banks have set the tone and standards for technological improvements As a result, public sector banks have been forced to adopt new technologies to retain their dominant position. This has improved the quality of services being offered to the customers

Turning into Buyer's Market: Earlier the credit market was seller's market; a good part of finance market has become buyer's market. Banks take pain to live up to the expectations of customers. Adoption of new technologies has become easier.

Narrowing down of Distinction between Banks and Financial Institutions: The Improvement have narrowed down the distinction between banks and financial institutions are moving towards 'Universal Banking'

Reduction of Non-Performing Assets: Continuous efforts are being made to bring down the level of non-performing assets particularly in public sector banks

Securitization and Reconstruction of Financial Assets: The securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act,2002 has empowered banks and financial institutions to directly enforce the security interest pledged with them without having to go through the judicial process of the DRT or Civil Courts. The secured creditor can also transfer security interest to a securitization or asset reconstruction company.

Challenges Ahead: The process of liberalization and globalization has presented certain challenges to the Indian Banking which are briefly discussed below.

Competition from Global majors: The Improvement have brought about a fierce competition from international banks. Many of these international banks are entering in collaboration with Indian partners. To compete, the Indian Banks have to acquire financial muscle. The size of the bank is likely to become important. This may force mergers on some of the banks to acquire competitive size.

Competition from new banks: The entry of new private sector banks has changed the ways of banking in India. Equipped with latest technology and products, these banks have aroused the customers' expectations very high.

Pressure on Spread: Spread is the difference between interest earned and interest payable. This competition has and will bring pressure on spreads. One way of easing pressure will be non-fund based earnings. The increase in margins may have to be compensated through high turnover. Innovations of new banking products and innovative re-positioning in the market may determine future success.

Changes in product pricing: ‘Cost plus ‘pricing has almost disappeared. The products have to be priced based risk assessment.

Management of Non-Performing Assets: In recent years, the banks have been able to perform on account of profitability. However, management of non-performing assets continues to be a matter of concern. The non-performing assets have caused problems worldwide. However, in recent years, there has been a significant managing and reducing NPA’s

Managing Technology: The revolution in information technology has affected banking industry as well. In fact, major consumers of computer software technology are commercial banks. However, technology carries a heavy price tag and it is necessary to mix business and technology strategies closely, if the technology investment is to prove cost effective.

Relationship Banking: The relationship banking has made late arrival on the Indian scene. Banks will have to acquire and other new skills to establish a mutually beneficial relationship with their customers.

Self-Regulation by Banks: The liberalization will call for self-regulation through a self-regulatory organization.

Challenges from the structure of Indian Economy: Certain challenges will emerge from the structure and size of the Indian Economy. The banks will not be able to ignore any one segment of the economy. In a country India’s expertise and various types of disparities, the banks will be faced with certain problems regarding their approach.

CONCLUSION

Since the financial Improvement of 1991 there have been critical good changes in India's exceedingly managed banking sector. This paper tosses light on the Growths that have occurred in the Indian banking system because of process of banking Improvement and challenges ahead for it. It presumes that the financial Improvement have impacted lessening the centralization of the banking sector and improving performance. In addition, allowing banks to take part in non- customary exercises has added to improved profitability and cost and income proficiency of the entire banking sector including public sector banks. By differentiate, interest in government securities has brought down the productivity and cost effectiveness of the entire banking sector, including public sector banks. The present strategy of rebuilding the banking sector through empowering the section of new banks has so created some positive outcomes. Notwithstanding, the way that opposition has happened just at the lower end recommends that bank regulators should lead a more intensive rebuilding of public sector banks. Given that public-sector banks have scale focal points, the present approach of improving their execution without excusing them may not deliver further benefits for India's banking sector. As two decades have gone since the Improvement were started and public-sector banks have been presented to the new administrative condition, it might be the ideal opportunity for the Government to make a further stride by advancing mergers and acquisitions and shutting unviable banks. A further decrease of SLR and greater support for non-customary exercises may likewise make the banking sector stronger to different adverse shocks.

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