INDIAN BANKING INDUSTRY: CHALLENGES & OPPORTUNITIES

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ISSN: 2249-894X
IMPACT FACTOR : 5.7631(UIF)
UGC APPROVED JOURNAL NO. 48514
VOLUME - 8 | ISSUE - 8 | MAY - 2019

ABSTRACT:

The financial changes started by the Government of India around two decades prior have changed the scene of a few parts of the Indian economy. The Indian financial division is no exemption. This segment is experiencing real changes as an outcome of financial changes. The job of banking industry is significant as one of the main and for the most part fundamental administration division. India is the biggest economy on the planet having in excess of 120 crore populace. Today in India the administration area is contributing portion of the Indian GDP and the banking is most well known administration part in India. The huge job of banking industry is basic to accelerate the social financial advancement. Banks assumes a significant job in the monetary improvement of creating nations. Monetary improvement includes interest in different areas of the economy. The monetary changes have additionally created new and ground-breaking clients (gigantic Indian white collar class) and new blend of players (open division units, private banks, and outside banks). The rising challenge has produced new desires from the current and the new clients. There is a critical need to present new items. Existing items should be conveyed in an inventive and financially savvy route by exploiting developing advances. The greatest open door for the Indian financial framework today is the Indian purchaser. Statistic moves regarding pay levels and social moves as far as way of life desires are changing the profile of the Indian customer. The Indian customer presently tries to satisfy his way of life goals at a more youthful age with an ideal blend of value and obligation to back utilization and resource creation. This is prompting a developing interest for focused, complex retail banking administrations. This paper clarifies the changing financial situation, the effect of monetary changes and examinations the difficulties and chances of Indian banks.

KEYWORDS*: Indian economy , Indian financial division, Indian financial framework.*

INTRODUCTION:

In ongoing time, we has seen that the World Economy is going through some unpredictable conditions as chapter 11 of banking and budgetary foundations, obligation emergency in significant economies of the world and euro zone emergency. The situation has turned out to be extremely unsure causing retreat in significant economies like US and Europe. This offers some genuine conversation starters about the survival, development and keeping up the supportable improvement. However, amidst all this turmoil India's Banking Industry has been amongst the few to maintain resilience. The rhythm of advancement for the Indian financial industry has been striking over the previous decade. It is clear from the higher pace of credit extension, extending benefit and efficiency like banks in created markets, lower rate of non-performing resources and spotlight on budgetary consideration have added to making Indian banking lively and solid.Indian banks have begun to revise their growth approach and re-evaluate the prospects on hand to keep the economy rolling.

Bank of Hindustan was set up in 1870; it was the most punctual Indian Bank. Afterward, three administration banks under Presidency Bank's demonstration 1876 for example Bank of Calcutta, Bank of Bombay and Bank of Madras were set up, which established framework for present day banking in India. In 1921, all administration banks were amalgamated to shape the Imperial Bank of India. Royal bank completed predetermined number of focal financial capacities preceding foundation of RBI. It occupied with a wide range of business banking business aside from managing in remote trade.

Hold Bank of India Act was passed in 1934 and Reserve Bank of India (RBI) was comprised as a zenith body without real government possession. Banking Regulations Act was passed in 1949. This guideline brought RBI under government control. Under the demonstration, RBI got wide running forces for supervision and control of banks. The Act likewise vested permitting powers and the expert to lead assessments in RBI.

In 1955, RBI obtained control of the Imperial Bank of India, which was renamed as State Bank of India. In 1959, SBI took over control of eight private banks drifted in the past regal states, making them as its 100% auxiliaries.

It was 1960, when RBI was engaged to constrain mandatory merger of frail saves money with the solid ones. It altogether diminished the all out number of banks from 566 out of 1951 to 85 out of 1969. In July 1969, government nationalized 14 banks having stores of Rs. 50 crores and above. In 1980, government obtained 6 a bigger number of keeps money with stores of more than Rs.200 crores. Nationalization of banks was to make them assume the job of synergist specialists for monetary development. The Narasimha Committee report proposed wide extending changes for the financial segment in 1992 to present globally acknowledged financial practices. The change of Banking Regulation Act in 1993 saw the passage of new private segment banks.

Banking industry is the spine for development of any economy. The voyage of Indian Banking Industry has confronted numerous influxes of monetary emergency. As of late, we have seen the financial emergency of US in 2008-09 and now the European emergency. The general situation of the world economy is basic.

It is the financial guidelines and guideline structure of India which has kept it from the world conomic emergency. So as to comprehend the difficulties and chances of Indian Banking Industry, as a matter of first importance, we have to comprehend the general situation and structure of Indian Banking Industry.

GENERAL BANKING SCENARIO IN INDIA

The general financial situation in India has turned out to be dynamic now-a-days. Before pre-progression period, the image of Indian Banking was totally extraordinary as the Government of India started measures to assume a functioning job in the monetary existence of the country, and the Industrial Policy Resolution received by the administration in 1948 conceived a blended economy. This came about into more prominent contribution of the state in various portions of the economy including banking and account.

The Reserve Bank of India was nationalized on January 1, 1949 under the terms of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948. In 1949, the Banking Regulation Act was ordered which engaged the Reserve Bank of India (RBI) "to manage, control, and examine the banks in India." The Banking Regulation Act additionally given that no new bank or part of a current bank could be opened without a permit from the RBI, and no two banks could have basic chiefs.By the 1960s, the Indian financial industry had turned into a significant instrument to encourage the speed of advancement of the Indian economy. The Government of India issued a statute and nationalized the 14 biggest business keeps money with impact from the midnight of July 19, 1969. A second portion of nationalization of 6 progressively business banks followed in 1980. The expressed reason for the nationalization was to give the administration more control of credit conveyance. With the second portion of nationalization, the Government of India controlled around 91% of the financial business of

India. Later on, in the year 1993, the legislature blended New Bank of India with Punjab National Bank. It was the main merger between nationalized banks and brought about the decrease of the quantity of nationalized banks from 20 to 19. After this, until the 1990s, the nationalized banks developed at a pace of around 4%, closer to the normal development rate of the Indian economy.

In the mid 1990s, the then Narasimha Rao government set out on an arrangement of advancement, authorizing few private banks. The following stage for the Indian banking has been set up with the proposed unwinding in the standards for Foreign Direct Investment, where every single Foreign Investor in banks might be given casting a ballot rights which could surpass the present top of 10%, at present it has gone up to 74% with certain confinements. The new approach shook the Banking segment in India totally. Investors, till this time, were utilized to the 4-6-4 technique (Borrow at 4%; Lend at 6%; Go home at 4) of working. The new wave introduced an advanced standpoint and technically knowledgeable strategies for working for conventional banks. This prompted the retail blast in India. Individuals requested more from their banks as well as got more.

STRUCTURE OF INDIAN BANKING INDUSTRY

The current financial structure in India advanced more than a very long while, is intricate and has been serving the credit and banking administrations needs of the economy. There are various layers in the present financial structure to take into account the particular and fluctuated necessities of various clients and borrowers. The structure of banking in India assumed a noteworthy job in the preparation of investment funds and advancing monetary improvement. In the post-money related segment changes (1991) stage, the presentation and quality of the financial structure improved detectably. Monetary soundness of the Indian business banking framework contrasts positively and the vast majority of the progressed and developing nations.

Indian financial industry has been separated into two sections, sorted out and chaotic divisions. The composed division comprises of Reserve Bank of India, Commercial Banks and Cooperative Banks, and Specialized Financial Institutions (IDBI, ICICI, IFC and so forth).

1. Reserve banks of India.
2. Indian Scheduled Commercial Banks.
   a. State Bank of India and its associate banks.
   b. Twenty nationalized banks.
   c. Regional rural banks.
   d. Other scheduled commercial banks.
3. Foreign Banks
4. Non-scheduled banks.
5. Co-operative banks.

Origin of Banking in India

Banking in India is indeed as old as the Himalayas. But, the banking functions became an effective force only after the first decade of 20th century. Banking is an ancient business in India with some of oldest references in the writings of Manu. Bankers played an important role during the Mogul period. During the early part of East India Company era, agency houses were involved in banking. Modern banking (i.e. in the form of joint-stock companies) may be said to have had its beginnings in India as far back as in 1786, with the establishment of the General Bank of India.

Banking System

The structure of banking system differs from country to country depending upon their economic conditions, political structure, and financial system. Banks can be classified on the basis of the volume of operations, business pattern and areas of operations. They are termed as a system of banking. The commonly identified systems are:

Unit Banking

Unit banking is originated and developed in the U.S.A. In this system, small independent banks are functioning in a limited area or in a single town . It has its own board of directors and stockholders. It is also called as "localized Banking".

Branch Banking

The Banking system of England originally offered an example of the branch banking system, where each commercial bank has a network of branches spread throughout the country.

Correspondent Banking

The correspondent banking system is developed to remove the difficulties in the unit banking system. The smaller banks deposit their cash reserve with bigger banks.

Therefore, correspondent banks are intermediaries through which all unit banks are linked with bigger banks in financial centers. Through correspondent banking, a bank can carry-out business transactions in another place where it does not have a branch.

Group Banking

Group Banking is the system in which two or more independently incorporated banks are brought under the control of a holding company. The holding company may or may not be a banking company. Under group banking, the individual banks may be unit banks, or banks operating branches or a combination of the two.

Pure Banking and Mixed Banking

On the basis of lending operations of the bank, banking is classified into:
(a)Pure Banking
(b) Mixed Banking

(a) Pure Banking: Under pure Banking, the commercial banks give only short-term loans to industry, trade, and commerce. They specialize in short-term finance only. This type Of banking is popular in U.K.

(b) Mixed Banking: Mixed banking is that system of banking under which the commercial ban s perform the dual function of commercial banking and investment banking. Commercial banks usually offer both short-term as well as medium-term loans. The German banking system is the best example of mixed Banking.

Relationship Banking

It refers to the efforts of a bank to promote personal contacts and to keep continuous touch with customers who are very valuable to the bank. In order to retain such profitable accounts with the bank or to attract new accounts, it is necessary for the bank to serve their needs by maintaining a close relationship with such customers.

Narrow Banking

A bank may be concentrating only on the collection of deposits and lend or invest the money within a particular region or certain chosen activity like investing the funds only in Government Securities. This type of restricted minimum banking activity is referred to as 'Narrow Banking'.

Universal Banking

As Narrow Banking refers to restricted and limited banking activity Universal Banking refers to broad-based and comprehensive banking activities.

Regional Banking

In order to provide adequate and timely credits to small borrowers in rural and semi-urban areas, Central Government set up Regional Banks, known as Regional Rural Banks all over India jointly with State Governments and some Commercial Banks.

Local Area Banks

With a view to bringing about a competitive environment and to overcome the deficiencies of Regional Banks, Government has permitted the establishment of one type of regional banks in rural and semi-urban centers under private sector known as "Local Area Banks".

Wholesale Banking

Wholesale or corporate banking refers to dealing with limited large-sized customers. Instead of maintaining thousands of small accounts and incurring huge transaction costs, under wholesale banking, the banks deal with large customers and keep only large accounts. These are mainly corporate customer.

Private Banking

Private or Personal Banking is banking with people — rich individuals instead of banking with corporate clients. It attends to the need of individual customers, their preferences and the products or services needed by them. This may include all-around personal services like maintaining accounts, loans, foreign currency requirements, investment guidance, etc.

Retail Banking

Retail banking is a major form of commercial banking but mainly targeted to consumers rather than corporate clients. It is the method of banks' approach to the customers for sale of their products.

Banking sector outlook 2019: Key trends that will shape New Year for banks

The banking sector was in the news in 2018 for all the wrong reasons. While the challenges from digitisation and fintech players remained, what created more trouble was the deteriorating asset quality.

PSB consolidation

After the merger of State Bank of India (SBI) with its five associates, all eyes are now on the merger of three PSBs -- Bank of Baroda, Dena Bank and Vijaya Bank. Unlike SBI, this merger is going to be challenging because there is no associate-parent relationship. All the three banks have different geographic presence, wok culture, IT platforms etc. The BoB, where the government had earlier experimented with outside professional, has taken a leap in many of the ways its business was conducted earlier. The best possible route for this merger would be to adopt the business practices of BoB and integrate others.

New private bank CEOs

There are new CEOs in some of the large private banks. Sandeep Bakhshi is now leading the ICICI Bank after ex-CEO Chanda Kochhar left due to governance issues. Amitabh Chaudhry is leading the Axis Bank after ex-CEO Shikha Sharma left because of poor performance of Axis Bank. YES Bank will also see a change from founder professional Rana Kapoor to a professional. HDFC Bank also has to speed up its succession process as Aditya Puri would be retiring soon. The successor in the private banks will be in the news and also the succession planning in some of the banks.

Corporate banking to make a comeback

In the last few years, the retail engine was growing robustly. There are now expectations of corporate lending to make a comeback. Infrastructure (especially roads, metro etc), commodities (steel, cement etc) and consumption companies are set to see action.

Peaking of NPAs

The NPAs are almost peaking. As the banks have made huge provisions for stressed assets, year 2019 may see writing back of some profits as resolution of assets will also gather steam.

More realisation through IBC

In the last two years, the Insolvency and Bankruptcy Code (IBC) saw a lot of action in terms of amendments, challenges and counter claims. The law is now stabilising and could see more cases coming out of it. This will help the banks recover good value.

Emerging challenges:-

Asset quality is under tremendous pressure due to continued economic slowdown and increase in the rise of the levels of Gross nonperforming advances and NPA's.

One of the major problems is Large Over dues of farmers in small branches of rural areas. And Government decision to waive to all farmers loans has added in the difficulties of such banks.

Indian banks are facing bad loans or Non-performing assets (NPA), which means loans which are not paid by the borrowers on time, and hence causing huge burden on banks.

Even after all the efforts made by the government, banks at rural areas are still in loss as rural people are still not familiar with banking system.

There is also risk from political interference as the government can interfere with banking policies at the time of budget implementation.

One of the emerging threats is Cyber threats as the most of the transaction are made through digital channels, which are not 100% secure.

Many senior bank workers are still not familiar with the use of technologies in bank and young and inexperienced are replacing them.

Steps taken by Indian banking sector:-

All banks are wholeheartedly working for the complete implementation of PMJDY (Pradhan Mantri Jan Dhan Yojna) making banking service available to everyone. For farmers, Kisan Credit Card scheme is launched to help them with Loans through banks.

Protection of bank customers' information has one of the trust areas for RBI. And for this RBI has issued a charter of customer rights on the global best practices.

With the implementation of KYC/AML norms banks are now able to remove all the fake accounts and with this monitoring of transactions is easy.

To make payment easier, accessible and secure, banks and Government together launched AEPS(Adhaar enabled payment system). Banks are getting digitized means converting data into digital format, thus providing better services to customers. Banks are taking steps to reduce NPA and to strengthen the balance sheets and also working hard to strengthen NPA's recovery rules.

Best practices worldwide:-

SWIFT was launched by Bank for International Settlements (BIS) to solve the problems of block chain. it offers a code which is used to transfer money between banks on international level.

BASEL Accords under this BCBC (Basel committee on banking supervision) published Norms such as "Basel 1" "Basel 2" and "Basel 3" to focus on Risk management in banks, and financial Procedure. India will start Basel 3 by the end of December 2019.