



CRITICAL EVALUATION OF CHALLENGES IN SUSTAINABLE DEVELOPMENT OF INDIAN BANKING SECTOR

Dr. Jignesh Dalal, Assistant Professor, Department of Commerce, Nirmala Memorial Foundation
College of Commerce and Science

Introduction

In any economy, one of the important parameter to judge its strength, is banking sector. A strong and healthy banking system makes any country a global leader. Along with traditional functions of accepting deposits and deployment of credit, banks have expanded their horizon to various services right from merchant banking to investment banking catering needs of individuals, firms, corporate etc. In India, banking sector commenced as private initiatives and later on government decided to nationalize most of the banking sector. After liberalization, privatization and globalization, Indian economy opened its doors for foreign players and banking sector was not behind.

India has diversity in its social and economic needs, special needs of people in rural areas and distinct needs of urban population with modern aspirations. In order to cater such diversity, strong policy decisions and core investment in infrastructural development was necessary. Indian government identified the same and brought landmark changes in their policies from time to time. The important policy changes include issuing banking licenses to private sector in late 20th century, use of computers in banking, issuing credit cards / debit cards as tools of settlements of financial transactions without holding cash, introducing NEFT/RTGS and launching mobile applications for ease and convenience of customers.

In recent years, specially after collapse of cooperative sector in last 20 years, banking sector has witnessed interference of non-economic parameters specially in case of disbursement of loans which has resulted into increasing non - performing assets. It not only hamper the profitability of banks but also raised question mark their credibility. Also there have been some serious lapses in corporate governance in banking which resulted into bankruptcy of banks, frauds and forced mergers.

With popularization of fintech, the expectations of new age consumers have been demanding in terms of quality of service and efficiency. As most of the traditional banking operations are done on online mode, there have been introduction of new age banks popularly known as neo banks where there is no physical existence of banks and all its operations are carried out on digital platform. As on today, there are 18 neo banks operating in India but they haven't gained the popularity and their growth has been minimum. Indian banking system has also been facing the challenge of global competition.

Review of Literature:

- 1) Sharma N. L. and Shekhar S. (2015), in their research paper named Indian Banking Industry: Challenges and Opportunities, have identified general perceptions, challenges ad future scope for Indian banking system. The article in its first part provides overview, evolution and current status of banking system that includes transition of banking through various phases.

In the second part, authors have discussed on problems and prospects created out of various reforms and impact of globalization. In the last segment, authors provide valuable suggestions in terms of strategies for sustenance of banking system. The article also suggests measures for improving quality of service and efficiency of banks.

- 2) Mahto R. (2020), in his research paper named as Challenges Before the Indian Banking Sector, has discussed resource allocation and problems thereof. Author has identified pressure on profitability, low productivity, increasing non – performing assets, competition with global banks and changing needs of customers as key challenges for banking system in India. Articles suggest that modern approach in management of business operations and analysis and interpretation of consumer data would be key to success in future. If cautious efforts are made in improving productivity and efficiency, Indian banking system can become role model for the world.
- 3) Garg N., Yadav N. (2018), in their research article named Challenges and Prospects of Indian Banking System, have reviewed changing business dynamics, obstacles and available future scope in banking sector. Authors have taken note of various reforms introduced by Indian government from time to time. Authors have used secondary data from various research papers, journals, RBI website and other public sources. Cyber threats, inadequate infrastructure and operational inefficiency have been identified as important challenges. Authors believe that introduction of payment banks, digital literacy, product differentiation and retail lending should help banks to prosper in future.
- 4) Iqbal J. and Qazi A.F. (2017), in their research paper named as Challenges and Opportunities in Indian Banking Sector have explained issues concerning banking sector and future prospects for Indian Banking Sector. Authors have reviewed existing literature for the analysis and recommendations. The study finds that penetration of banking in rural India, financial inclusion, high transaction cost and competition are some pressing issues that require immediate attention for survival of banking system in India. There is severe need to deregulate banking and understand change in demographics and their changing expectations from banking sector, failing to which Indian banks shall witness a debacle.

Objectives

- To study evolution of banking system in post globalization period
- To review reforms in banking sector in post globalization period and its impact on Indian banks
- To identify challenges and future prospects for Indian banking system
- To suggest strategic approaches for survival and growth of banking system under global competition.

Research methodology

Researcher has used secondary data as main source for identifying facts and drawing inferences from the same. The data was collected from research articles, journals, business magazines, research papers and RBI website. The study is based on more than 50 references. In order to have insights from floor of banking, researcher has conducted interviews of 3 senior level employees representing public sector, private sector and cooperative bank. The mix of primary and secondary data has provided balance to this study.

Findings

After doing thorough review of selected existing literature, author has identified many challenges in banking system in present scenario and concerns for their future growth and development. The key challenges are as follows:

- 1) Challenge of infrastructure – With rapid growth in use of technology and linking of banking activities through core banking has led to constant upgradation in tools and infrastructure. Indian banks have failed to keep up the pace and provide quality services to their customers resulting into poor customer experience. The quantity as well as the infrastructure and its regular maintenance has been one of the important obstacle in banking system.
- 2) Rural penetration – More than 60% of Indian population stays in rural areas where reach of banks has been limited. Either rural banks are far of resulting into inconvenience to customers or they lack trained staff to attend the needs of rural consumers. It is found that many skills or investment opportunities are not communicated to consumers as Indian public sector banks lack customer relationship management, where as private sector banks are reluctant to offer their services in rural areas.
- 3) Changing expectations of customers – On one hand with digitalization and fintech revolution, there is emergence of neo banking and on the other hand the diversified services provided by retail banking have multiplied. The effect of LPG and change in mindset of customers have posed challenge for entire banking system. To meet the needs of Gen Z banks need to be re-invent themselves in terms of services and customer relationship management.
- 4) Global Competition – Opening economy under the policy of liberalization, privatization and globalization has had its own benefits for customers, economy and government. On the other hand, it also exposed Indian banking system to cut throat global competition. Matching international standards of service and meeting expectations have not been upto the mark as far as Indian banks are concerned.
- 5) High operational cost – Increasing burden of wages and salaries specially in public sector banks, non-linking efficiency and career advancements and substantial reduction in the need of face to face banking transactions with existing infrastructure have created financial burden of most of the banks in India. Such high operation cost exerts pressure on profitability of banks.

Though there are many challenges and constraints for sustainable development of banking in India, there are number areas where socio – economic environment, technological advancement and strong regulatory system would create opportunities for attaining global competitiveness and benchmark. Some of the important areas are as follows:

- India is second largest populous country and rural market for banking is yet untapped to a greater extent. If Indian banks can bring the entire working population under banking system, it will be boost to our economy.
- Along with retail banking, banks can diversify their services into areas like merchant banking, investment banking etc. It will not only increase their customer base but also help them to generate revenue.
- Over past few years, India has seen substantial migration of people to the various parts of the world and today there are many pockets where Indians are present in large numbers. As a result, Indian banks have scope for commencing global banking operations.

Conclusion

In current scenario, Indian banking system is going through a transition phase where traditional banking has lost its relevance for retail customers and many banking operations are now getting executed with the use of technology. At this moment, despite of challenges in the area of technology, human resource management, customer relationship management etc, Indian banks have successfully survived global competition and some of them have also created strong impression and benchmark for their services.

Suggestions

- Deregulation of banking system should be given topmost priority so as to bring flexibility in banking operations. Popularising digital currency and NEFTs can strengthen banking operations for future.
- Banking sector should focus on creating manpower with required skills to meet modern aspirations and expectations of customers. Training and development should be encouraged as integral part of job.
- In this VUCA world, Indian government should consider negotiating with foreign countries for smooth entry to Indian banks.

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