

# Challenges and Prospects of Indian Banking System

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## ABSTRACT

*In modern world, banking sector plays dominant role in economic system. A bank is institution that provides financial services to their customer. Banking sector covers more than half assets of financial sector. Indian Banking sector have been going through rapid changes such as pre nationalization, post nationalization phase, financial reforms, demonetization etc. To make banking sector more reliable and competitive Indian Govt. announced many reforms from time to time. Prior to LPG reforms Indian banking suffered from various problems such as lack of competition, no proper regulations and less growth opportunities, no transparency in transaction, no proper records of books etc. Indian banking sector have faced many challenges today also such as rural market segments, lack of knowledge to use services, global competition, non-performing assets, banking transaction frauds and cyber threats etc. But for growth and development there are lot of opportunities such as services differentiation, introduction of payment banks, e-banking, technology advancement and professional excellence are available to this sector. Main objective of this research paper is to review changing scenario, challenges and prospects available to the banking sector. Researcher has used secondary data to explain the various challenges and prospects that has been collected from various research papers, journals, RBI website and other sites.*

**Keywords:** Banking sector, finance, Payment banking, Professional Excellence and Nationalization of banks.

## INTRODUCTION:

In modern world, Banks have become the base for all economic development. Without adequate banking system an economy can't survive in world. A bank is an institution that deals in finance i.e. main functions of a bank are accepting deposits and give loans to people and creates credit. According to Crowther, "The banker's business is to take the debts of other people to offer his own in exchange and thereby create money. Bank is different from other financial institution because banks can creates credit through financial transaction whereas other institutions can't. The origin of bank was considered in German whereas some people trace banking origin from French word 'Banqui' and Italian word 'Banca' that referred to the bench for trading, exchanging lending and borrowing of money or coins in market. The first bank of world called the 'Bank of Venice'. 'Bank of Hindustan was formed as the first bank of India started in 1770 by an English agency which failed in 1782. But in modern sense the first bank established in India was 'Bank of Bengal (1809). Bank of Bombay (1840) and Bank of Madras (1843) were established by East India Company. The first bank run or wholly controlled by Indians was Allahabad Bank. Punjab National Bank was set up in 1894 with headquarter in Lahore. In 1921 three banks named as Bank of Bengal, Bank of Bombay and Bank of Madras (presidency Bank) were amalgamated and formed Imperial Bank of India which was run by European shareholders. Reserve Bank of India is the apex institution of banking sector in India. It was established on 1 April 1935 accordance with provision of RBI Act 1934. In 1969 after nationalization of banks; banking sector achieved a new height in growth and development. There are 21 nationalized banks in India. On 1 April 2017, 5 associate banks of SBI and Bhartiya Mahila were merged with SBI. After that SBI become a largest bank among top 50 banks. Today in banking sector, there are 12 private sector banks, 36 foreign banks, 53 scheduled urban banks, 31 state co-operative banks and 82 regional rural banks in India. In India more than 75% of banking transactions are held by public sector banks. Main functions of commercial banks are as follows:

- Accepting Deposits from public.
- Giving loans and advances.
- Providing finance for foreign trade.
- Credit Creation.
- Providing agency services.
- Other services i.e. locker facilities, underwriting, statistical information about financial market etc.

## OBJECTIVE OF THE STUDY:

1. To explain the changing scenario of banking industry in India.
2. To analyze the problems and challenges of national and commercial banks in India.

3. To identify prospects of Indian banking sector.

## RESEARCH METHODOLOGY

Research methodology refers to the process adopted for conducting research. It explains nature of study, methods of collection of data and tools used to analyze the data. The nature of the study is descriptive because descriptive study describes the present situations and features of study. It helps in reduction of bias and improves reliability of data in research. Secondary data has been used in this research paper. Data is collected from journals, periodicals, research papers and published data on banks, books, different websites etc.

## REVIEW OF LITERATURE

**Bhai Lakshmi (2018)** explained in their research paper the challenges and opportunities existing in E-banking system of India. She described customer satisfaction, privacy risk, handling technology, security risk, less internet penetration are the major challenges faced by banking sector whereas untapped rural markets, multiple channel, worthy customer service and increase internet users are main prospects of E-banking. The author used secondary data to explain the challenges and prospects of E-banking in India.

**Hasan et.al (2015)** described low quality assets, lack of governance, accountability and transparency, inadequacy of effective risk management, banking financial stability of Bangladesh's banks are major problems faced by banking industries in Bangladesh.

**Manikyam (2014)** explained in their paper the changing banking scenario, the impact of reforms and analyses the challenges and opportunities of national and commercial banks. They used secondary data in their research paper to explain the present scenario of banking sector. This article discussed various challenges and opportunities like high transaction cost, asset quality issue, IT revolution, timely technology up gradation, intense competition, privacy and safety, global banking and technology innovation has compelled the banks to rethink their policies and strategies

**Nilesh L. and Baban S. (2014)** presented in their research paper the performance of Indian banking system by using secondary data on the basis of Net Interest Margin and market capitalization of banks.

**Ayachit M. (2012)** explained in their study the application of ICT in order to make the entire banking experience consumer centric. This study also highlighted the application of emerging technology in few selected banks. This paper listed the various challenges faced by banking industries due to ICT i.e. automation may lead to unemployment, various issues related to biometrics, voice revolution, security issues and digital literacy in rural areas and provided some alternatives such as proper communication, offering high quality products and multifactor authentication etc. to overcome these challenges.

**Rahman Mahbub et.al (2012)** examined in their research paper present status, problems and prospects of E-banking in Bangladesh. The results of the study revealed that E-banking serves several advantages to Bangladeshi banking sector whereas the customer of Dutch Bangla Bank Ltd. have not enough knowledge regarding E-banking. The researcher used both types of data to explain the problems and prospects. They also suggested how a bank can improve the level of Electronic banking in Bangladesh.

**Goyal k.and Joshi V.(2012)** made an attempt to identify the general sentiments, challenges and opportunities for Indian banking industry in their research paper. They explained that rural market, management of risk, human resource policies, customer satisfaction, market discipline, global banking, employee's retention, environmental concerns and social & ethical aspects were main issues and opportunities available to banking sector on the basis of collected data.

**Edwin Agwu** described in their paper that their main aim was to qualitatively explore the problems and prospects of online banking in developing economics with Nigeria as case study. The analysis of gathered data produced various reasons for non-adoption of internet banking services in Nigeria. The findings provided a base for financial managers to understand the reasons for non-adoption on these innovative services and some suggestions to enhance the awareness about online banking system. Both types of data were collected to draw conclusion about internet banking.

**Sharma and Shekhar** had been made efforts in their paper to identify the general sentiment, challenges and opportunities for Indian banking sector. They explained technological problem, rural coverage, corporate governance, branch banking, competition and transparency and disclosure are the main challenges of banking sector whereas low profitability and productivity, lack of integrity, increase in administrative expenses, scandals, non-performing assets, door to door approach, customer relationship management and market technological advancement are the major problems and prospects of Indian banking system. In this

paper author suggested that banking companies should cut their operational cost and provide product differentiation and upgrade their technology to overcome the problems.

### **CHALLENGES FACED BY INDIAN BANKING SECTOR**

Indian banking sector achieved a new height in pace of development from pre nationalization era to till now. But still some factors that challenge the banking sector and become hindrance in the growth of banking sector. Some challenges faced by Indian banking system are as follows:

#### **Lack of Knowledge**

There is little knowledge of banking operations in rural sector of India. People are not aware about the procedure followed by banking system. They have a little knowledge about services and facilities provided by banks. Due to this reason mostly people can't avail the services rendering by this sector and this become a major problem for rural banking sector.

#### **Non-performing assets**

according to RBI Financial Stability Reports 2017 Indian Banking Sector Bad loans amounted to approx. 10 lakhs crore which is greater than 137 small countries of world. In all Public Sector Banks about 75% of their lending is bad loans and this becomes major issue for banking sector industries.

#### **Cyber Threats**

In India out of total banking transaction 95% are transacted in cash. With the increase use of information technology, internet, smartphone Cybercrime becomes the major threat for Indian banking system. Banking sector should take initiatives to control these Cybercrime.

#### **Banking Frauds**

Another major challenge faced by banking sector is fraud transaction in banks. In last five years, banking fraud has advanced by 19.6% to 5064 crore. Banking companies should take strong steps to stop these frauds by verifying proper identities and securities presented for granting loans by public from banks.

#### **Competition by other financial institutions**

Today every business survives by providing different and quality goods and services to their customer in competition world. Banking sector also faced thrill competition by other financial institutions that provide their services on easy norms in comparison to the banks. They provided loans on less interest rate with less security norms. So the customer shifts their attention to other institutions for their financial requirements. And banking sector is becoming low growth sector due to low profitability and productivity.

#### **Inadequate Infrastructure**

In many areas of rural segment there is no proper infrastructure for banking institutions. There are no proper space for working of banks and any other facilities and resources that are necessary for adequate operations of banking system. In many villages due to less electricity resources and banking operations could not take place completely digital. And these problems become the barriers for banking operations.

#### **Other challenges:**

In today's life banking sector faces many challenges that affect the operational efficiencies of banks. Some of these are related to services rendered by banks whereas some are related to the personnel activities and market operations. Despite of above some are like scandals, lack of professional qualifications, depression in country and employee's retention are other challenges faced by banking sector.

### **PROSPECTS AVAILABLE TO BANKING SECTOR**

Despite of Various challenges there are prevailing so many opportunities that empower banking business.

#### **Offering new services:**

Banking sector provides so many new services and trending methods for banking transaction such as e-banking, funds transfers, electronic bill payments. These services reduce transactions time and are easy to access. These transactions provide banking sector new avenues to achieve growth

#### **Introducing payment banking**

Payment bank is a new type of bank introduced by RBI. These banks can't accept more deposits from consumer but provide services like ATM, Debit Cards, Credit cards and mobile banking to customers. These banks accept utility bills from public. They can't issue loans and cards to public. These banks provide fast services rather than traditional banking.

#### **Digital literacy:**

Indian government introduced National Digital Literacy mission with a mission to encourage digital literacy skills in India by 2020. This step will help to educating the rural public to understand the benefits, functions and procedure followed by different banks.

**Competitive advantage:**

By adopting e-banking banks can get competitive advantage over other financial competitors. Reductions of operational cost by using e-banking, Access to new areas, strong customer relationship are example of these benefits some benefits.

**Untouched rural market**

In rural segment about 70% of population is not aware about banking transactions. This sector can become big opportunities for public or private banks. These banks should introduce their services to rural people and connect with new consumer and can capture a big part of financial market.

**Product differentiation**

Indian banks strengthen themselves by providing different services to their customers. By attending consumer preferences banks can improve their earnings and reduce their cost. Banks can provide different services as online banking facilities, payment banking, user payment interface, easy norms for loans, less formalities for banking proceedings.

**Retail lending**

Indian market has shifted from traditional place to online stores. Online trades improve banking because mode of payment is either by cards or online through different payment apps that enhance banking transactions. Paytm, Paypal, Freecharge, Mobikwik are some example of payments apps. Some online stores have their own account for transact with consumer that improve banking business.

**CONCLUSION:**

Indian Banking sector achieved a new height with changing scenario. Over the year lot of changes has witnessed in banking industry. Indian banking sector has spread its wings in new areas but still banking sector have faced many challenges. This paper explains various challenges and prospects presented to banking sector. Challenges show the major threats and problems whereas opportunities offered new avenues to banking sector. It will help banking sector to adjust in competitive world. There are many innovations like ATM, Debit Cards, net Banking have changed the direction of banking but still we need some more avenues to solve the problems and to avail the opportunities. Indian Banking Sector is undergoing huge transformation to offer better services to their customer whereas these challenges emphasize to rethink about policies and strategies.

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