



INDIAN BANKING SECTOR: CHALLENGES AND OPPORTUNITIES



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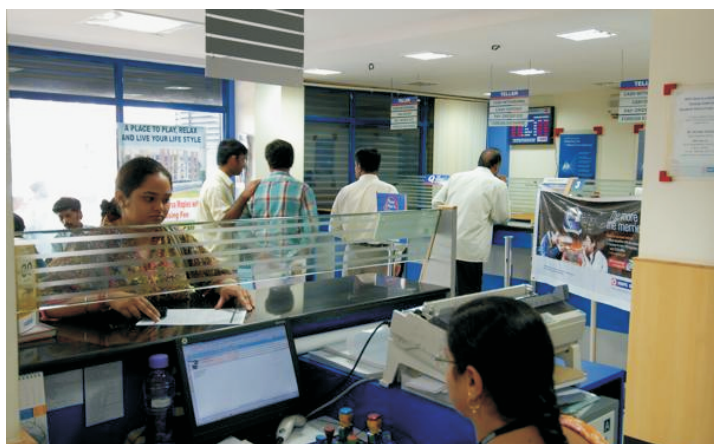
ABSTRACT

Prof. Dr. Prakash Kadrekar, In recent time, we has witnessed that the World Economy is passing through some intricate circumstances as bankruptcy of banking & financial institutions, debt crisis in major economies of the world and euro zone crisis. The scenario has become very uncertain causing recession in major economies like US and Europe. This poses some serious questions about the survival, growth and maintaining the sustainable development.

KEYWORDS :Indian Banking Sector , major economies , Challenges and Opportunities.

INTRODUCTION:

However, amidst all this turmoil India's Banking Industry has been amongst the few to maintain resilience. The tempo of development for the Indian banking industry has been remarkable



over the past decade. It is evident from the higher pace of credit expansion, expanding profitability and productivity similar to banks in developed markets, lower incidence of non- performing assets and focus on financial inclusion have contributed to making Indian banking vibrant and strong. Indian banks have begun to revise their growth approach and re-evaluate the prospects on hand to keep the economy rolling. In this paper an attempt has been made to review various challenges which are likely to be faced by

Indian banking industry.

CHALLENGES FACED BY INDIAN BANKING SECTOR:

Developing countries like India, still has a huge number of people who do not have access to banking services due to scattered and fragmented locations. But if we talk about those people who are availing banking services, their expectations are raising as the level of services are increasing due to the emergence of Information Technology and competition. Since, foreign banks are playing in Indian market, the number of services offered has increased and banks have laid emphasis on meeting the customer expectations. Now, the existing situation has created various challenges and opportunity for Indian Commercial Banks. In order to encounter the general scenario of banking industry we need to

understand the challenges and opportunities lying with banking industry of India.

RURAL MARKET:

Banking in India is generally fairly mature in terms of supply, product range and reach, even though reach in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region. Consequently, we have seen some examples of inorganic growth strategy adopted by some nationalized and private sector banks to face upcoming challenges in banking industry of India. For example recently, ICICI Bank Ltd. merged the Bank of Rajasthan Ltd. in order to increase its reach in rural market and market share significantly. State Bank of India (SBI), the largest public sector bank in India has also adopted the same strategy to retain its position. It is in the process of acquiring its associates. Recently, SBI has merged State Bank of Indore in 2010.

MANAGEMENT OF RISKS :

The growing competition increases the competitiveness among banks. But, existing global banking scenario is seriously posing threats for Indian banking industry. We have already witnessed the bankruptcy of some foreign banks.

Sensarma and Jayadev (2009) used selected accounting ratios as risk management variables and attempted to gauge the overall risk management capability of banks. They used multivariate statistical techniques to summarize these accounting ratios. Moreover, the paper also analyzed the impact of these risk management scores on stock returns through regression analysis. Researchers found that Indian banks' risk management capabilities have been improving over time. Returns on the banks' stocks appeared to be sensitive to risk management capability of banks. The study suggest that banks want to enhance shareholder wealth will have to focus on successfully managing various risks.

GROWTH OF BANKING :

Goyal and Joshi (2011) that small and local banks face difficulty in bearing the impact of global economy therefore, they need support and it is one of the reasons for merger. Some private banks used mergers as a strategic tool for expanding their horizons. There is huge potential in rural markets of India, which is not yet explored by the major banks. Therefore ICICI Bank Ltd. has used mergers as their expansion strategy in rural market. They are successful in making their presence in rural India. It strengthens their network across geographical boundary, improves customer base and market share.

HUMAN RESOURCE MANAGEMENT:

Bartel (2004) studied the relationship between human resource management and establishment performance of employees on the manufacturing sector. Using a unique longitudinal dataset collected through site visits to branch operations of a large bank, the author extends his research to the service sector. Because branch managers had considerable discretion in managing their operations and employees, the HRM environment could vary across branches.

GLOBAL BANKING :

It is practically and fundamentally impossible for any nation to exclude itself from world economy. Therefore, for sustainable development, one has to adopt integration process in the form of liberalization and globalization as India spread the red carpet for foreign firms in 1991. The impact of

globalization becomes challenges for the domestic enterprises as they are bound to compete with global players. If we look at the Indian Banking Industry, then we find that there are 36 foreign banks operating in India, which becomes a major challenge for Nationalized and private sector banks. These foreign banks are large in size, technically advanced and having presence in global market, which gives more and better options and services to Indian traders.

EMPLOYEES' RETENTION:

The banking industry has transformed rapidly in the last ten years, shifting from transactional and customer service-oriented to an increasingly aggressive environment, where competition for revenue is on top priority. Long-time banking employees are becoming disenchanted with the industry and are often resistant to perform up to new expectations. The diminishing employee morale results in decreased revenue. Due to the intrinsically close ties between staff and clients, losing those employees completely can mean the loss of valuable customer relationships. The retail banking industry is concerned about employee retention from all levels: from tellers to executives to customer service representatives because competition is always moving in to hire them away. The competition to retain key employees is intense. Top-level executives and HR departments spend large amounts of time, effort, and money trying to figure out how to keep their people from leaving.

job satisfaction of employees at the workplace through the quality of life factors of job involvement and sense of competence. Results indicated that personal, job, and organizational climate factors influenced the ego investment or job involvement of people in their jobs, which in turn influenced the intra-psychic reward of sense of competence that they experienced, which then directly influenced employees' job satisfaction .

CUSTOMER RETENTION:

Hansemark and Albinsson (2004) explored how the employees of a company experience the concepts of customer satisfaction and retention. They used phenomenological method, allowing the informants' own interpretations to be discovered. Satisfaction was discussed from three perspectives: definition of the concept, how to recognise when a customer is satisfied, and how to enhance satisfaction. The informants' experience pertaining to these three categories varied, and a total of seven ways to define, recognise or enhance satisfaction were discovered. These were: service, feeling, chemistry, relationship and confidence, dialogue, complaints and retention. All except the first two of these categories of experience were found to enhance retention, implying that the informants have found that strategies for enhancing both satisfaction and retention are similar. The strongest connection between retention and satisfaction strategies turned out to be in terms of relationship and confidence.

SOCIAL AND ETHICAL ASPECTS:

There are some banks, which proactively undertake the responsibility to bear the social and ethical aspects of banking. This is a challenge for commercial banks to consider these aspects in their working. Apart from profit maximization, commercial banks are supposed to support those organizations, which have some social concerns

CONCLUSION :

Over the years, it has been observed that clouds of trepidation and drops of growth are two important phenomena of market, which frequently changes in different sets of conditions. The pre and

post liberalization era has witnessed various environmental changes which directly affects the aforesaid phenomena. It is evident that post liberalization era has spread new colors of growth in India, but simultaneously it has also posed some challenges. This article discusses the various challenges and opportunities like rural market, transparency, customer expectations, management of risks, growth in banking sector, human factor, global banking, environmental concern, social, ethical issues, employee and customer retentions. Banks are striving to combat the competition. The competition from global banks and technological innovation has compelled the banks to rethink their policies and strategies.

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