

International Multidisciplinary  
Research Journal

Golden Research  
Thoughts

Chief Editor  
Dr.Tukaram Narayan Shinde

---

Publisher  
Mrs.Laxmi Ashok Yakkaldevi

Associate Editor  
Dr.Rajani Dalvi

Honorary  
Mr.Ashok Yakkaldevi

---

## Welcome to GRT

RNI MAHMUL/2011/38595

ISSN No.2231-5063

Golden Research Thoughts Journal is a multidisciplinary research journal, published monthly in English, Hindi & Marathi Language. All research papers submitted to the journal will be double - blind peer reviewed referred by members of the editorial board. Readers will include investigator in universities, research institutes government and industry with research interest in the general subjects.

### *International Advisory Board*

Flávio de São Pedro Filho Federal University of Rondonia, Brazil	Mohammad Hailat Dept. of Mathematical Sciences, University of South Carolina Aiken	Hasan Baktir English Language and Literature Department, Kayseri
Kamani Perera Regional Center For Strategic Studies, Sri Lanka	Abdullah Sabbagh Engineering Studies, Sydney	Ghayoor Abbas Chotana Dept of Chemistry, Lahore University of Management Sciences[PK]
Janaki Sinnasamy Librarian, University of Malaya	Ecaterina Patrascu Spiru Haret University, Bucharest	Anna Maria Constantinovici AL. I. Cuza University, Romania
Romona Mihaila Spiru Haret University, Romania	Loredana Bosca Spiru Haret University, Romania	Ilie Pinteau, Spiru Haret University, Romania
Delia Serbescu Spiru Haret University, Bucharest, Romania	Fabricio Moraes de Almeida Federal University of Rondonia, Brazil	Xiaohua Yang PhD, USA
Anurag Misra DBS College, Kanpur	George - Calin SERITAN Faculty of Philosophy and Socio-Political Sciences Al. I. Cuza University, Iasi	.....More
Titus PopPhD, Partium Christian University, Oradea,Romania		

### *Editorial Board*

Pratap Vyamktrao Naikwade ASP College Devrukh,Ratnagiri,MS India	Iresh Swami Ex - VC. Solapur University, Solapur	Rajendra Shendge Director, B.C.U.D. Solapur University, Solapur
R. R. Patil Head Geology Department Solapur University,Solapur	N.S. Dhaygude Ex. Prin. Dayanand College, Solapur	R. R. Yalikal Director Managment Institute, Solapur
Rama Bhosale Prin. and Jt. Director Higher Education, Panvel	Narendra Kadu Jt. Director Higher Education, Pune	Umesh Rajderkar Head Humanities & Social Science YCMOU,Nashik
Salve R. N. Department of Sociology, Shivaji University,Kolhapur	K. M. Bhandarkar Praful Patel College of Education, Gondia	S. R. Pandya Head Education Dept. Mumbai University, Mumbai
Govind P. Shinde Bharati Vidyapeeth School of Distance Education Center, Navi Mumbai	Sonal Singh Vikram University, Ujjain	Alka Darshan Shrivastava Shaskiya Snatkottar Mahavidyalaya, Dhar
Chakane Sanjay Dnyaneshwar Arts, Science & Commerce College, Indapur, Pune	G. P. Patankar S. D. M. Degree College, Honavar, Karnataka	Rahul Shriram Sudke Devi Ahilya Vishwavidyalaya, Indore
Awadhesh Kumar Shirotriya Secretary,Play India Play,Meerut(U.P.)	Maj. S. Bakhtiar Choudhary Director,Hyderabad AP India.	S.KANNAN Annamalai University,TN
	S.Parvathi Devi Ph.D.-University of Allahabad	Satish Kumar Kalhotra Maulana Azad National Urdu University
	Sonal Singh, Vikram University, Ujjain	

Address:-Ashok Yakkaldevi 258/34, Raviwar Peth, Solapur - 413 005 Maharashtra, India  
Cell : 9595 359 435, Ph No: 02172372010 Email: ayisrj@yahoo.in Website: www.aygrt.isrj.in

## INDIAN BANKING SCENARIO – CHALLENGES & OPPORTUNITIES



Elia Thagaram<sup>1</sup> and Tilak Kumar Vadapalli<sup>2</sup>

### INTRODUCTION

This paper explains the changing banking scenario, the impact of economic reforms and analyses the challenges and opportunities of national and commercial banks. This article is divided in three parts. First part includes the preface and general scenario of Indian banking industry. The second part discusses the diverse challenges and opportunities faced by Indian banking industry. Third part includes the conclusion.

### OBJECTIVE

The objective of this paper is to elucidate the present banking scenario and to study the challenges and opportunities of national and commercial banks in changing banking scenario.

### METHODOLOGY

This paper is the outcome of a secondary data on Indian Banking Sector with special reference to Indian context. To complete this,

### Abstract

*The economic reforms introduced by the Govt. of India about two decades ago have changed the landscape of several sectors of Indian economy. The Indian banking sector is of no exemption. This segment is going through major changes as a result of economic reforms. The role of banking industry is very vital as one of the leading and mostly essential service sector. Today in India the service sector is contributing nearly half of the Indian GDP and the banking is most popular service sector in India.*

*The biggest opportunity for the Indian banking system today is the Indian consumer. Demographic shifts and cultural shifts are changing the profile of the Indian consumer. This is leading to a growing demand for competitive banking services.*

**Keywords :** Indian Banking Scenario , economic reforms, Challenges & Opportunities.

### Short Profile

Elia Thagaram is a Research Scholars, ANU.

annual reports, various books, journals and periodicals have been consulted, several reports on this particular area have been considered, and internet searching has also been done.

Progression of the Indian Banking Industry

The first bank in India, called The General Bank of India was established in the year 1786. The East India Company established The Bank of Bengal/Calcutta (1809), Bank of Bombay (1840) and Bank of Madras (1843). The next bank was Bank of Hindustan which was established in

1870. These three individual units (Bank of Calcutta, Bank of Bombay, and Bank of Madras) were called as Presidency Banks. Allahabad Bank which was established in 1865, was for the first time entirely run by Indians.

<sup>1,2</sup>Research Scholars, ANU.

### Phases of Evolution of Indian Banking Industry

In the evolution of this strategic industry spanning over two centuries, massive developments have been made in terms of the rules governing it, the ownership composition, products and services presented and the technology employed. The entire progression can be divided into four distinct phases.

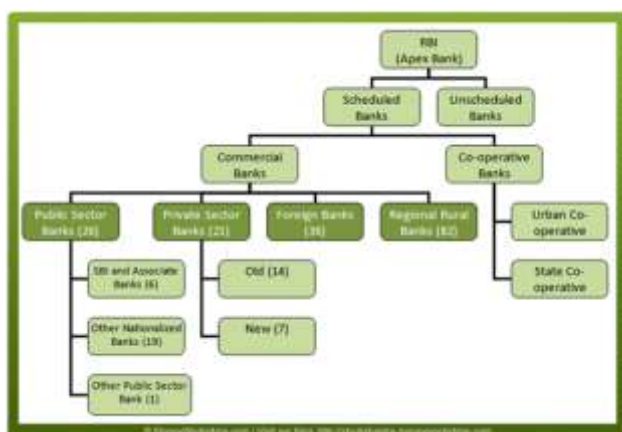
Phase I- Pre-Nationalization Phase (prior to 1955)

Phase II- Era of Nationalization and Consolidation (1955-1990)

Phase III- Beginning of Indian Financial & Banking Sector Reforms and Partial Liberalization (1990-2004)

Phase IV- Period of Increased Liberalization (2004 onwards)

### Structure of Indian Banking System:



### CHALLENGES AND OPPORTUNITIES

The Indian banking sector continues to face some structural challenges. In a country like India, we still has a huge number of people who do not have access to banking services due to broaden and uneven locations. But if we talk about those people who are availing banking services, their prospects are raising as the stage of services are increasing due to the emergence of Information Technology and competition. Since, foreign banks are performing in Indian market, the number of services accessible has improved and banks have laid stress 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.

#### a) Indian Consumer in Rural Market

The biggest opportunity for the Indian banking system today is the Indian consumer. India with a population of more than 120 crore people, Demographic shifts in terms of income levels and cultural shifts are altering the profile of the Indian consumer. This is leading to a growing demand for spirited, refined retail banking services.

The consumer represents a market for a wide range of products and services – he needs a credit to finance his house; an auto loan for his car; a loan for education, a credit card for purchases; a bank account; a pension plan for his retirement; a life insurance policy – the potentials are endless. And, this consumer does not reside just in India’s top ten cities. In India, above 66% of population lives in rural areas. It is for this purpose, recently, ICICI Bank Ltd. merged with Bank of Rajasthan Ltd. in order to raise its attainment in rural market and market share significantly.

#### b) Increased competition:

The RBI and Government of India kept banking industry open for the participants of private sector banks and foreign banks. Due to this lowered entry barriers many new players have entered the market such as private banks, foreign banks, nonbanking finance companies, etc.

Profits of banks are being affected by increased competition. But increased competition has also resulted in increased efficiency, improved customer services and profitability in terms of returns on both equity and assets. Banks now have to continuously innovate their practices to stay ahead in the market. Increasing

competition, however, might also persuade the banks to higher risk taking strategies.

**c) Innovations in Information Technology:**

Technology is the key to servicing all customer segments – offering convenience to the retail customer and operating efficiencies to corporate and government clients. The increasing sophistication, flexibility, and complexity of product and servicing offerings makes the effective use of technology critical for managing the risks associated with the business. Developing or acquiring the right technology, deploying it optimally, and then subsidizing it to the maximum extent is essential to achieve and maintain high service and efficiency standards while remaining cost-effective and delivering sustainable returns to shareholders. Early adopters of technology attain major competitive advantage. Managing technology is, thus, a major challenge for the Indian banking sector.

**d) Industrial Development:**

The developments in Indian industry and the integration of India with the global markets also offer innumerable opportunities to the banking sector. Companies and governments are ever more seeking high-quality banking services to improve their own operating efficiency. Companies seek to offer improved customer service and maximize shareholder returns and governments seek to improve the quality of open services. The internationalization of India offers banks the opportunity to service cross-border needs of Indian companies and India-linked needs of multinationals.

**e) High Transaction Costs:**

A major concern before the banking industry is the high transaction cost of carrying non-performing assets in their books. The growth leads to strains in the operational efficiency of banks and the accumulation of non-performing assets (NPA's) in their loan portfolios.

**f) Management of Risks:**

The growing competition increases the competitiveness between banks. But, present global banking scenario is seriously posing threats for Indian banking industry. We have by now witnessed the economic failure of some foreign banks. Ex. Lehman bro's.

Al-Tamimi and Al-Mazrooei (2007) examined the risk management practices and techniques in dealing with different types of risk.

**g) Financial inclusion:**

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society. In India, RBI has initiated several measures to achieve greater financial inclusion, like facilitating no-frills accounts and GCCs for small deposits and credit.

**h) Appropriate HR Policies:**

It has become imperative that for meeting the challenges and opportunities in future, there will be huge require for bringing about changes in the mindset of the human resource available within the banks. Training and development in updating the skills would be essential to face the emerging challenges. In a service segment like banking, human resources will occupy the crucial part for making the bank services. With the entry of new private banks and foreign banks, the method of hire-and-fire will be revisited. Security and age old practice of conducting traditional banking will undergo revolutionary change. Maintenance of best talent would be a trying exercise that banks will have to undertake and practice through robust reward and retention policy.

**i) Customer Retention:**

In today's Banking scenario, retaining the customer within our banking services is a very high task. The financial inclusion and setting up of new banks has made customers

easily to embark into process of banking. Hence, the banks which can render high quality services can only retain the customers for longtime.

#### j) Product Re-Engineering Strategy:

The growth in disposable incomes, changing lifestyles, global changes and their impact on the economy will result in ever changing and diversified needs to the customers. Banks in future will have to recognize the dynamic needs of a changing society through detailed market surveys and structure innovative products so as to canalize the savings of the community and also to satisfy the credit requirements of various sectors of the economy.

#### k) Social, Ethical and Corporate Governance Aspects:

There are some banks, which proactively undertake the task to bear the social and ethical aspects of banking. This is a deal with 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.

#### l) Timely Technological Progression:

Already electronic transfers, clearings, settlements have reduced translation times. To face competition it is necessary for banks to absorb the technology and upgrade their services.

### CONCLUSION

This article discusses the various challenges and opportunities like High transaction costs, IT revolution, timely technological up-gradation, intense competition, global banking, and financial inclusion. Banks are striving to combat the competition.

The biggest challenge for banking industry is to serve the mass and huge market of India. Companies have become customer centric than product centric. The better we understand our customers, the more victorious we will be in

meeting their needs. In order to mitigate above mentioned challenges Indian banks must cut their cost of their services. Another aspect to encounter the challenges is product differentiation. Apart from traditional services, Indian banks must adopt some product innovation so that they can compete in gamut of competition. Technology up gradation is an inevitable aspect to face challenges. The level of consumer awareness is significantly higher as compared to previous years. Now-a-days they need internet banking, mobile banking and ATM services.

# Publish Research Article

## International Level Multidisciplinary Research Journal For All Subjects

Dear Sir/Mam,

We invite unpublished Research Paper, Summary of Research Project, Theses, Books and Book Review for publication, you will be pleased to know that our journals are

### Associated and Indexed, India

- ★ International Scientific Journal Consortium
- ★ OPEN J-GATE

### Associated and Indexed, USA

- EBSCO
- Index Copernicus
- Publication Index
- Academic Journal Database
- Contemporary Research Index
- Academic Paper Database
- Digital Journals Database
- Current Index to Scholarly Journals
- Elite Scientific Journal Archive
- Directory Of Academic Resources
- Scholar Journal Index
- Recent Science Index
- Scientific Resources Database
- Directory Of Research Journal Indexing

Golden Research Thoughts  
258/34 Raviwar Peth Solapur-413005, Maharashtra  
Contact-9595359435  
E-Mail-ayisrj@yahoo.in/ayisrj2011@gmail.com  
Website : www.aygrt.isrj.in