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CONTEMPORARY ISSUES AND CHALLENGES IN INDIAN BANKING SECTOR

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Abstract:

Banking sector, one of the core sectors of service economy is fiercely competitive. Indian banking systems present the well structure and systematic manner. Indian banking sector has experienced great change in recent era. But be not having largest bank in world. The purpose of this study is to recent issues and challenges of Indian banking sectors. The study based on secondary data. The study found that most important problems facing in banking sector by microeconomic risk, government and banking regulation, and political interference and technological risk etc.

Keywords: bank system, microeconomic, nonperforming assets and cyber fraud.

Introduction:

Bank play vital role in economic development to every countries. Banks are lifeline of economy. Bank largest contribution give to GDP IN 7.7 percent give to our country. Bank not only institutions it is present day's basic needs of human. Bank is need for everyone and ours identification given through bank accounts. Indian banking system is very fastest changing and development such as day today implementation new policies, rules and regulations. Indian banking system controlled system holding by reserve bank of India. In recent era bank has common thinks to human, they are used anywhere and anytime. Banker has observed and analyses the customer wants and satisfaction, such as fast changes the way of transaction channels such as ATM, balance enquiry, internet banking, mobile banking e cheque, electronic fund transfer, credit cards, debit cards, smart cards and payment banks. Indian bank established various payment banks and also started in post office department. Post office department also using for banking purpose, it means Indian banking sector rapidly changes and growth.

Service sector is lifeline for the social and economic growth of a country. Service sector has a largest sector of Indian gross value added (GVA) at current price for service is established at 73.79 lakh crore INR in 2016 2017 service sector accounts for 53.66% of total Indian GVA of 137.51 lakh crore Indian rupees. Financial services contributions give to 21.88 service sector it is largest contribution to service sector. Banking sector contribution give to 6.65 to financial sector and contribution of the banking sector to GDP is about 77% of GDP.

Indian Rs 77 trillion (US$ 1.30 trillion) banking industry is well at par with global standard and norms, prudent practices and conventional frame work adopted by the regulator, reserve bank of India have insulated Indian banks form the global financial crisis. The country has 87 scheduled commercial banks with deposits worth Rs 701.6 trillion (US$1.21 trillion) as on 31st may 2017 of this 19 are public sector banks which control over 70 percent of Indian banking sector, 20 are private banks and 41 are foreign banks, out of the total 41 banks are listed with total market capitalization of Rs 9.35 trillion (US$ 158.16 billion as per recent statistic.

Objectives of the Study:

The study has the following objectives:

1) To review the recent trends and scenario in Indian banking sector.
2) To review the banking development in Indian banking sector.
3) To study the emerging issues and challenges in Indian banking sector.

Research Methodology:

This object of study tries to understand the recent trends in banking sector and to know the issues and challenges. The study is descriptive in nature, based on secondary data. The data is collected from various sources like as report published in banking sector, research paper, articles, journals, news paper, internet, etc.

Historical Background and Development:

Bank of Hindustan was set up in 1870. It was the earliest Indian bank. Later three presidency banks under presidency banks act 1876 that is bank of Calcutta, bank of Bombay and bank of madras were set up. This laid foundation for modern banking in India. In 1921 all presidency banks were amalgamated to form the imperial bank of India. Imperial bank carried out limited number of central banking functions prior to establishment of RBI. It engaged in all types of commercial banking business except dealing in foreign exchange.

Reserve bank of India act was passed in 1934 and RBI was constituted as an apex body without major government ownership. Regulations act was passed in 1949. This regulation brought RBI under government control; under the act RBI got wide ranging power for supervision and the authority to conduct inspections in RBI. In 1955 RBI acquired control of the imperial bank of India, which was remained as state bank of India.

It was 1960 when RBI empowers to force compulsory merger of weak banks with the strong once. It significantly reduced the total number of banks from 566 in 1951 to 85 in 1969. In July 1969 government nationalized 14 banks with deposits of more than Rs 200 crore. The narashimha committee report suggested wide ranging reforms for the banking sector in 1992 to introduce internationally accepted banking practices. The amendment of banking regulation act in 1993 saw the entry of new private sector banks.

At present the Indian banking system of 18 public sector banks, 20 private sector banks, 43 foreign banks, 56 regional rural banks, 1589 urban cooperative banks and 93550 rural cooperative banks.

Indian banks have successfully adopted the Basel II norms of international banking supervision and as per the RBI majority of the banks have already met Basel III capital norms prior to its deadline of 31st march 2019.

As per KPGM-CII report Indian banking sector is expanding rapidly and has the potential to become the fifth largest banking industry in world by 2020 and third largest by 2025.

Issues and Challenges of Indian Banking Sector:

A. Macroeconomic risk:

Macroeconomic risk was top concern for all countries survey respondents despite the fact that many economies have now returned to positive growth. For bankers uncertainties in the macroeconomic environment together with persistent and high level of debt across sovereign corporate and consumer sector lay the ground work for asset bubbles to burst in the event of significant instability. Macroeconomic consist of market risk, foreign exchange risk, technological risk, country risk, etc. specific concerns for 2016 declining Chinese economy and in recent depreciate Indian rupees.

B. Regulation:

Indian banking has many applying rules and regulation. Indian central bank and government of Indian they are regulate the commercial banks. Bankers were also concerned about the impact of rising regulatory requirements on innovation and diversity as well as their ability to compete effectively against smaller players who are not exposed to same regulatory scrutiny. RBI and government they are regulate the day today find the new rules and regulation that are implemented it is very crucial decision.

C. Political interference:

Bankers expressed concern that governments could intervene in banking operations for a multitude of reasons including raising revenues in a time of budget stress, increasing investor protection and rebuild the national tax base. Bankers also highlighted that the uncertainty in several political environments including government election not only Indian others countries elections could result in greater interference over banking management, lending policies and taxation.

D. Technological risk and cyber threats:

Of all the most urgent concerns, outdated core information technology system were a significant concern for global bankers. Failure to invest appropriately in secure, agile system that can enhance digital and mobile banking can result in signification loss while compounding the risk for cyber attacks. An estimate 95% transaction in India are paid for in cash but with the growing penetration of computers and smart phones and increasing access to the internet, Indians are taking to digital channels for their banking needs. Cybercrime is becoming a greater threat as a result. The FSR labeled cyber attacks as a high risk zone for Indian banking sector. The clamor to secure Indian banking system increased following a massive data beach of 3.2 million debit and credit cards last year, one biggest attack in the country. Another important recent global attack that affected the computer systems of government and several companies in various countries including India.

E. Non-performing assets/ bad loans:

At nearly Rs 18 lakh crore Indian piles of bad loans is bigger than the gross domestic products of at least 137 countries. The share of gross NPAs india0 could up to 1.2% by March 2018, from 9.6% in March 2017. According to the FSR in September 2016 gross NPAs were at 9.2%. Currently the worst hits are the state owned banks, which dominate the Indian banking system. In March 2017 the average bad loan of public sector banks stock at 75% of their net worth. As per the international monetary fund IMF around 37 percent of the total debt in India is at fifth largest banking industry in the world by 2020. And the third largest by 2025 according to a KPMGCII report.

F. Corruption and fraud:

Scams in the erstwhile global trust bank and the bank of Baroda show how few official misuse the freedom they granted under the guise of liberalisation for their personal benefit. These scams have badly damaged the image of these banks consequently there profitability. Band fraud concern for the banking regulator is the increased number of fraudulent transaction banks. what adding to the concerns is that banks often seem reluctant to report these cases get seasoned for two to three years as NPAs before they are reported as fraud the RBI said in the report. Last five years the volume of bank fraud has increased by 19.6% to 5064 cases.

G. Risk management system:

Another issue for banking sector asset liability management, operating risk management and risk management system. The current business environment demands an integrated approach to risk management. It is no longer sufficient to manage each risk independently. Indian banks are moving from the individual segment system to an enterprise wide risk management system. This is playing greater demands on the forefront the need for capacity building. While the first priority would be risk integrating across the group will also need attention. Banks would be required to allocate significant resources towards this objective over the next few years.

Conclusion:

In this research paper banking sector of India is critically analysed with its emerging trends, features and challenges. Banking sector attack the lower profitability, increasing nonperforming assets and negligible for suitable develop the finance product the finance product. Banks are experiencing technological advancement, transparent and efficient system, it is a good character in term of cost cutting, speedily and making fast transaction, but the observe about in recent days complex problems facing for banks such as cyber attacks, low potential security, server problems. Indian economy still their contribution increase to gross domestic product but it is very low. Banks are at the core of any economic system whether developed or financial logic as the financial inclusion is still a distant dream. Banking industry undertakes a comprehensive adopt the banking committees polices and structures. Banking system as the key pillar upon which the economic prosperity of the country rests. Banks are the lifeline of any economy and collective responsibility of all countries. Developing banking system greed up to face all domestic and global challenging business environment is an incentive to adopt a more sophisticated way in allocating and using scarce financial resource such as liquidity and capital. Banks are moving from a number of compliance level to a transparency level will face a number of enhancements to their risk information technology infrastructures.

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