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Banking Industry: Indian Scenario

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In this paper an attempt has been made to identify the general sentiments, challenges and opportunities for the Indian banking industry. This article is divided in three parts. First part includes the introduction and general scenario of Indian Banking Industry. The second part discusses the various challenges and opportunities faced by Indian Banking Industry. Third part concludes that urgent emphasis is required on the Indian Banking Product and marketing strategy in order to get sustainable competitive edge over the intense competition from national and global banks.
This article is a small seed to existing branch of knowledge in banking industry and is useful for bankers, strategist, policy makers and researchers.
Key words: Commercial Banks, Suggestions for banking industry, Employee and Customer retention, competitive edge.
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Introduction

In recent time, we have witnessed that the World Economy is passing through intricate circumstances as bankruptcyof banking and financial institution, death 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.

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 incidents of non-performing assetsand focus on financial inclusion have contributed to making Indian banking vibrant and strong. Indian banks have begun to revise their growth approach and revaluate 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.

Research methodology

The study is carried out to make qualitative and comprehensive evaluation of Indian Banking Industry. For the purpose descriptive research design (observational method & case- study method) has been adopted which is based on the secondary data and the secondary sources of data were the various websites, published annual reports and literatures of the banking companies, RBI annual report, IMF annual & periodical reports and academic journals.

Historical background

Bank of Hindustan was set up in 1870; it was the earliest Indian bank. Later, three presidency bank under Presidency Bank's Act 1876 i.e. Bank of Calcutta, Bank of Bombay and Bank of Madras were set up, which laid foundation for modern banking in India. Imperial Bank of India. Imperial Bank carried out limited number of central banking functions prior to establishment of RBI. It engaged in all type of commercial banking business except dealing in foreign exchange.

Reserve Bank of India Act was passed in1934 & Reserve Bank of India (RBI) was constituted as an apex body without major government ownership. Banking Regulation Act was passed in 1949. This regulation brought RBI under government control. Under the act, RBI got wide ranging powers for supervision & control of banks. The Act also vested licensing powers & the authority to conduct inspections in RBI.

In 1955, RBI acquired control of the Imperial Bank of India, which was renamed as State Bank of India. In 1959, SBI took over control of eight private banks floated in the erstwhile princely states, making them as its 100% subsidiaries.

It was 1960, when RBI was empowered to force compulsory merger of weak banks with the strong ones. It significantly reduced the total number of banks from 566 in 1951 to 85 in 1969. In July 1969, government nationalised 14 banks having deposits of Rs.50 Crores and above. In 1980, government acquired 6 more banks with deposits of more than Rs. 200 crores. Nationalisation of banks was to make them play the role of catalytic agents for economic growth. The Narasimham Committee Report suggested wide ranging reforms for the banking sector in 1992 to introduce internationally accepted banking practices. The Amendment of Banking Regulation Act 1993 saw the entry of new private sector banks.

Banking industry is the back bone for the growth of any economy. The journey of Indian Banking Industry has faced many waves of economic crisis. Recently, we have seen the economic crisis of US in 2008-09 and now the European crisis. The general scenario of world economy is very critical.

It is the banking rules and regulation framework of India which has prevented it from the world economic crisis. In order to understand the challenges and opportunities of Indian BankingIndustry, first of all, we need to understand the general scenario and structure of Indian Banking Industry.

General banking scenario in India

The general banking scenario of India has become very dynamic now-a-days. Before pre-liberalisation era, the picture of Indian Banking was completely different as the government of India initiated measures to play an active role in the economic life of nation, and the Industrial Policy Resolution adopted by the government in 1948 envisaged a mixed economy. This resulted into greater involvement of the state in different segments of the economy including banking and finance.

As per the RBI report, The Indian economy continued to record strong growth during 2007-08, albett with some moderation. With adverse effect of global recessions on Indian industry and service sector, theRealGDP growth rate of India, has declinedfrom9.6%in 2006-07 to9% in 2007-08. But theoverallgrowthofrealGDPrateofthe India economy during 2007-08was noteworthyin theglobal context.

By the 1960s, the Indian Banking Industry had become an important tool to facilitate the speed of development of the Indian economy. During the first phase of financial reforms,there was a nationalization of14majorbanks in July 19, 1969. A second dose of nationalization of 6 more commercial banks followed in 1980. The stated reason for the nationalization was to give the

government more control of credit delivery. With the second dose of nationalization the government controlled around 91% of the banking business in India.[1]
In early 1990s, the then Narasimham Rao government embarked on a policy of liberalization, licensing a small number of private banks.

The new policy shook the banking sector in India completely. Bankers, till this time, were used to the 4-6-4 method (Borrow at 4%; Lend at 6%; Go home at 4%) of functioning. The new wave ushered in a modern outlook and tech-savvy methods of working for traditional banks. All this led to the retail boom in India. People not just demanded more from their banks but also received more.

Structure of indian banking industry

Banking industry in India functions under the sunshade of Reserve Bank of India- the regulatory, central bank. Banking Industry mainly consists of:

- Commercial Banks
- Co-operative Banks

Banks in India can be categorizedinto non-scheduled banks and scheduled banks. Scheduled banks constituteofcommercialbanks andco-operative banks which have been included in the Second Schedule ofReserve Bank of India (RBI) Act, 1934. There are about 67,000 branches of Scheduled banks spreadacross India.During thefirst phase of financial reforms, therewas a nationalization of14 major banks in 1969. This crucial step led to a shift from Classbanking toMass banking.Since then the growth of the banking industry in India has been a continuous process. Banking today has transformed into a technologyintensive andcustomer friendlymodel with a focus on convenience.

Cooperative Banking: The cooperative banking sector is one of the small partners of Indian banking structure in terms of volume of business, but it hasmorereach than anypublicsector bank or private sector bank. In our country, the cooperative banks havemore reach tothe rural India, through their huge network of credit societies in the institutional credit structure. There are 31 StateCooperativeBanks with 450 branches working for the development of co-operative sector in our country. A wide network of 361DistrictCentralCooperativeBanks(DCCBs) with over 7000 branches and 112000 Primary Agriculture Cooperative Credit Societies are serving the rural population and particularly farmers of our country. Apart from the DCCBs there are more than 350 AgricultureCooperativeandRuralDevelopmentBanks
(Formerly known as LandDevelopmentBanks).

Commercial Banks:A commercial bank is a profit-seeking business firm, dealing in money and credit. It is a financial institution dealing in money in the sense that it accepts deposits of money from the public to keep them in its custody for safety. So also, it deals in credit, i.e., it creates credit by making advances out of the funds received as deposits to needy people. It thus, functions as a mobiliser of saving in the economy. A bank is, therefore like a reservoir into which flow the savings, the idle surplus money of households and from which loans are given on interest to businessmen and others who need them for investment or productive uses.

A. List of Scheduled Banks in Indian Public Sector:

1. Allahabad Bank
2. Andhra Bank
3. Bank of Baroda
4. Bank of India
5. Bank of Maharashtra
6. Canara Bank
7. Central Bank of India
8. Corporation Bank
9. Dena Bank
10. Indian Bank
11. Indian Overseas Bank
12. Oriental Bank of Commerce
13. Punjab and Sind Bank
14. Punjab National Bank
15. State Bank of Bikaner and Jaipur
16. State Bank of Hyderabad
17. State Bank of India
18. State Bank of Indore
19. State Bank of Mysore
20. State Bank of Saurashtra
21. State Bank of Travancore
22. Syndicate Bank
23. UCO Bank
24. Union Bank of India
25. United Bank of India
26. Vijaya Bank

B. List of Scheduled Banks in Indian Private Sector:

1. Axis Bank Ltd
2. Bank of Punjab Ltd
3. Centurions Bank Ltd
4. HDFC Bank Ltd
5. ICICI Bank Ltd
6. IDBI Bank Ltd
7. Indusind Bank Ltd
8. ING Vysya Bank Ltd
9. Jammu & Kashmir Bank Ltd.
10. South Indian Bank

C. List of Scheduled Foreign Banks in India:

1. American Express Bank Ltd.
2. ANZ Gridlays Bank Plc.
3. Bank of America NT & SA
4. Bank of Tokyo Ltd.

5. BanqucNationale de Paris
6. Barclays Bank Plc
7. Citi Bank N.C.
8. Deutsche Bank A.G.
9. Dresdner Bank AG.
10. Hongkong and Shanghai Banking Corporation
11. Standard Chartered Bank.
12. The Chase Manhattan Bank Ltd.

D. Foreign Banks:
1. ABN Amro Bank N.V.
2. Abu Dhabi Commercial Bank Ltd.
3. American Express Banking Corporation
4. Antwerp Diamond Bank N.V.
5. Arab Bangladesh Bank
6. Bank International Indonesia
7. Bank of America
8. Bank of Bahrain and Kuwait B.S.C.
9. Bank of Ceylon
10. Bank of Nova Scotia
11. Bank of Tokyo – Mitsubishi Ltd.
12. Barclays Bank Plc.
13. BNP Paribas
14. China Trust Commercial Bank
15. Shinhan Bank
16. Citi Bank N.A.
17. Calyon Bank
18. Deutsche Bank
19. DBS Bank Ltd.
20. The Hongkong and Shanghai Banking Corporation Ltd.
21. J.P. Morgan Chase Bank N.A.
22. Krung Thai Bank Public Company Ltd.
23. Mashreq Bank p.s.c.
24. Mizuho Corporate Bank Ltd.
25. Oman International Bank S.A.O.G.
26. SocieteGenerale
27. Sonali Bank
28. Standard Chartered Bank
29. State Bank of Mauritius Ltd.[6]

Challenges faced by Indian banking industry

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 Information Technology and competition.

Now, the existing situation has created various challenges and opportunities for Indian Banking Industry. In order to encounter the general scenario of banking industry we need to understand the challenges and opportunities lying with banking industry of India.

Growth of Banking

The economic growth of the country is an apt indicator for the growth of the banking sector. The Indian economy is projected to grow at a rate of 5-6 percent and the country's banking industry is expected to reflect this growth. The onus for this lies in the capabilities of the Reserve Bank of India as an able central regulatory authority, whose policies have shielded Indian banks from excessive leveraging and making high risk investments. The competitive scenario in India is strong, with the landscape primarily dominated by government banks. Market entry at the country level is expected to be tough for new players due to the moderately consolidated nature of the industry and extremely high competition. The key challenges for the industry are to reduce NPAs,increase financial inclusion and raise capital for the Basel III compliance.The overall impact of suggested changes inthe 2012–13 Union Budget is expected to be positive. These changes are mostly focussed on financial inclusion through expansion into rural areas, and bringing stability by boosting credit growth. This may enable banks to meet the increasing demand for credit in the economy and comply with the Basel III norms.According to the top consulting firms, the growth of Indian banks, especially in the public sector, can be optimised through increasing productivity and efficient human resource management. Banks need to hire employees with both core and specialist skills, while simultaneously working to control attrition. Further, banks need to optimise the time and cost of performing non consumer activities with the help of special tools and revamping existing knowledge processes. Sustained government support and a careful re-evaluation of existing business strategies can help the Indian banks achieve strong growth. Sustained government support and a careful re-evaluation of existing business strategies can set the stage for Indian banks to become bigger and stronger, thereby setting the stage for expansions into a global consumer base.[9]

Human Resource Management

Human Resource Management is important for banks because banking is a service industry. Management of people and management of risk are two key challenges facing banks. How you manage the people and how you manage the risks determines your success in the banking business. Efficient risk management may not be possible without efficient and skilled manpower. Banking has been and will always be a "People Business". Though pricing is important, there may be other valid reasons why people select and stay with a particular bank. Banks must try to distinguish themselves by creating their own niches or images, especially in transparent situations with a high level of competitiveness. In coming times, the very survival of the banks would depend on customer satisfaction. Those who do not meet the customer expectations will find survival difficult. Banks must articulate and emphasize the core values to attract and retain certain customer segments. Values such as "sound", "reliable", "innovative", "international", "close", "socially responsible", "Indian", etc. need to be emphasized through concrete actions on the ground and it would be the bank's human resource that would deliver this.

The followingkey challenges faced in HR management in any organization and which is all the more relevant for public sector banks today:

(a) Planning
(b) Acquiring the right people
(c) Retaining/ developing the people
(d) Managing people separation / exit.

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 contrast to financial exclusion where those services are not available or affordable. An estimated 2.5 billion working-age adults globally have no access to the types of formal financial services delivered by regulated financial institutions. For example in Sub-Saharan Africa only 24% of adults have a bank account even though Africa's formal financial sector has grown in recent years. It is argued that as banking services are in the nature of public good; the availability of banking and payment services to the entire population without discrimination is the prime objective of financial inclusion public policy.

The term "financial inclusion" has gained importance since the early 2000s, a result of findings about financial exclusion and its direct correlation to poverty.

The Reserve Bank of India (RBI) set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06). In the report RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account. In India, financial inclusion first featured in 2005, when it was introduced by K.C.Chakraborthy, the chairman of Indian Bank. Mangalambecame the first village in India where all households were provided banking facilities.

In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services.[10][11][12]

Employees Retention

Effective employee retention is a systematic effort by employers to create and foster an environment that encourages current employees to remain employed with the policies and practices in place that address their diverse needs.

"The best employers inspire and maintain a passion for outstanding achievement. They not only pose sharp focus and clarity but also share it simply and effectively with the employees."

Sekaran, U. (1989) studied a sample of 267 bank employees, this study traced the paths to the job satisfaction of employees at the workplace through the quality of life factors of job involvement and sense of competence.[13]

Customer Retention

Customer retention is the activity that a selling organization undertakes in order to reduce customer defections. Successful customer retention starts with the first contact an organization has with a customer and continues throughout the entire lifetime of a relationship. A company's ability to attract and retain new customers, is not only related to its product or services, but strongly related to the way it services its existing customers and the reputation it creates within and across the marketplace.

Levesque and McDougall (1996) investigated the major determinants of customer satisfaction and future intentions in the retail bank sector. They identified the determinants which include service quality dimensions (e.g. getting it right the first time), service features (e.g. competitive interest rates), service problems, service recovery and product used. It was found, in particular, that service problems and the bank’s service recovery ability have a major impact on customer satisfaction and intentions to switch. [14]

Market Discipline and Transparency

Market discipline is a process by which investors (bondholders/ depositors) assess changes in bank risk and take actions leading to the adoption of those measures needed to control the institution’s level of risk. A recent study addresses this topic by examining the existence of market discipline in the Indian banking sector (Ghosh and Das, 2003). In particular, the study considers two specific aspects of market discipline, viz., (a) do bank fundamentals influence depositor willingness to entrust deposits at a particular bank? And, (b) do differences among bank groups affect the degree of market discipline in the banking sector? [15]

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.

Conclusion

Over the years it has been observed that PrivateSector Banks in India are witnessing immense progress. They are leaders in Internet banking, mobile banking, phone banking, ATMs. On the other hand the Public Sector Banks are still facing the problem of unhappy employees. There has been a decrease of 20% in the employeestrength ofthe privatesector in thewakeoftheVoluntaryRetirement Schemes (VRS). As far as foreign banks are concerned theyare likely to succeed in India. IndusInd Bank was the first private bank to be set up in India. IDBI, ING Vyasa Bank, SBI Commercial andInternationalBankLtd, Dhanalakshmi BankLtd,KarurVysyaBankLtd,BankofRajasthan Ltd etc. are some Private Sector Banks. Banks from the Public Sector include Punjab National bank, Vijaya Bank, UCO Bank, Oriental Bank, Allahabad Bank, AndhraBanketc. ANZGrindlaysBank, ABN-AMRO Bank, American Express Bank Ltd, Citibank etc are some foreign banks operating in India. Banking Institutions Banks are the most significant players in the India financial market. They are the biggest purveyors of credit, and they also attract most of the savings fromthe population.Dominated by the public sector, the banking industry has so far acted as an efficient partner in the growth and development of the country. Driven by the socialist ideologies and the welfare state concept, public sector banks have long been the supporters of agriculture and other priority sectors.Theyactas crucialchannels ofthe governments in itsefforts toensure equitableeconomic development.

Suggestions

As per the discussion, we can say that the biggest challenge for banking industry is to serve the mass market of India. Companies have shifted their focus from product to customer. The better we understand our customers, the more successful 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 banking 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 an ATM services.
Expansion of branch size in order to increase market share is another tool to combat competitors. Therefore, Indian nationalised and private banks must spread their wings towards global markets as some of them have already done it.

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