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A Study on Emerging Challenges & Opportunities for Indian Banking Sector

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ABSTRACT: *Banking sector is treated as a backbone of a nation as it plays multifarious role for the all total growth of a developing country like India. The banking industry in India has a huge canvas of history, which covers the traditional banking Practices from the time of Britishers to the reforms period, nationalization to privatization of banks and now increasing numbers of foreign banks in India. Therefore, Banking in India has been through a long journey. Banking industry in India has also achieved a new height with the changing times. The use of technology has brought a revolution in the working style of the banks. Nevertheless, the fundamental aspects of banking i.e. trust and the confidence of the people on the institution remain the same. Here commercial banks cater to short and medium term financing requirements, while national level and state level financial institutions meet longer-term requirements. Banking industry in India has also achieved anew height with the changing times. Most of banks provide various services such as Mobile banking, SMS & Net banking and ATMs to their customers for their convenience. The use of technology has brought a revolution in the working style of the banks. Banking today has transformed into a technology intensive and customer friendly model with a focus inconvenience. However, changing dynamics of banking business also brings new kind of risk exposure.*
Keywords: *Rural Market; Risk Management; Global Banking; Employee and Customer Retention.*

I. INTRODUCTION

Banking in India started with the establishment of three presidency banks under the Presidency Bank's Act 1876 i.e. Bank of Calcutta, Bank of Bombay and Bank of Madras. In 1921, all presidency banks were amalgamated to form the imperial Bank of India. Imperial bank carried out limited central banking functions also prior to establishment ofRBI. Reserve bank of India Act was passed in 1934 & Reserve Bank of India (RBI) was constituted as an apex bank without major government ownership. Banking Regulations Act was passed in 1949. Under this act, RBI got wide RBI was empowered in 1960, to force compulsory merger of weak banks with the strong ones. The total number of banks was thus reduced from 566 in 1951 to 85 in 1969. In July1969, government nationalized 14 banks having deposits of Rs.50 crores& above. In 1980, government acquired 6 more banks with deposits of more than Rs.200 crores. Nationalization of banks was to make them play the role of catalytic agents for economic growth &development. The Narsimham Committee report suggested wide rangingreforms forthe banking sector in 1992 to introduce internationally accepted banking practices. After this, until the 1990s, the nationalized banks grew at a pace of around 4%, closer to the average growth rate of the Indian economy. The structure of the banking system of India comprises two major parts: Organized and unorganized sector.The organized sector comprises the institutions which provide mainly short term credit to business, specialized term lending institutions which provide long term requirements of industry agriculture & foreign trade. The unorganized sector comprise of the money lenders and the indigenous bankers.

COMMERCIAL BANKS:A commercial bank (or business bank) is a type of retail bank that provides services, such asaccepting deposits, giving business loans and basic investment products.Commercialbanks perform many functions. They satisfy the financial needs of the sectors such as agriculture industry, trade, communication, so they play very significant role in a process of economicsocial needs throughout the country.The commercial banking structure in India consists of: (i).Scheduled Commercial Banks (ii). Non-scheduled Banks

Scheduled commercial Banks: constitute those banks which have been included in theSecond Schedule of Reserve Bank of India (RBI) Act, 1934.For the purpose of assessment of performance of banks, the Reserve Bank of India categoriesthem as public sector banks, old private sector banks, new private sector banks and foreign banks.

Non- scheduled banks: are those which are not included in second Schedule of the ReserveBank of India.
CO-OPERATIVE BANKS: RBI was empowered in 1960, to force compulsory merger of weak banks with the strong ones. The total number of banks was thus reduced from 566 in 1951 to 85 in 1969. In July1969,

government nationalized 14 banks having deposits of Rs.50 crores& above. In1980, government acquired 6 more banks with deposits of more than Rs.200 crores. Nationalizationof banks was to make them play the role of catalytic agents for economic growth &development. The Narsimham Committee report suggested wide ranging reforms thebanking sector in 1992 to introduce internationally accepted banking practices. After this, until the 1990s, the nationalized banks grew at a pace of around 4%, closer to the averagegrowth rate of the Indian economy.The structure of the banking system of India comprises two major parts: Organized andunorganized sector. The organized sector comprises the institutions which provide mainlyshort term credit to business, specialized term lending institutions which provide long termrequirements of industry agriculture & foreign trade. The unorganized sector comprise of the money lenders and the indigenous bankers.

INDIGENOUS BANKERS: According to the Indian Central Banking Enquiry Committee, "an indigenous banker isany individual or private firm receiving deposits and dealing in Hundies or lending money".Indigenous bankers lend money; act as money changers and finance trade by means ofinternal bill of exchange. With their own capital they grant loans against securities such asgold, jewellery, land, promissory notes etc.Their area of operation is limited, they know their customers intimately. They can watchwhether the loan granted is used for the purpose or not. Therefore these types of bankers areexisting even now.The indigenous bankers can be classified into the following three categories:(i) Those whose main business is banking(ii) Those who combine their banking business with trading activities and(iii) Those who act as commission agents.In India the majority of the indigenous bankers belong to the second category. The number of villages in India is too large, while the size of each village is so small that any comprehensive scheme for opening branches of commercial banks to cover all the villages is not possible. Therefore, the indigenous bankers have to continue to play a unique part mainly in rural finance. The indigenous bankers do not normally have contacts with other banking institutions in the country.

TABLE 1:NETPROFIT ASAPERCENTAGEOFTOTALASSETSDURINGTHE PERIOD 2002–2014

Year	PublicSector Banks	OldPrivate SectorBanks	NewPrivate SectorBanks	Foreign Banks	AllScheduled Commercial Banks
2002-203	-0.07	1.06	1.85	1.58	0.16
2003-2004	0.57	0.91	1.73	1.19	0.67
2004-2005	0.77	0.81	1.55	0.97	0.82
2005-2006	0.42	0.48	1.03	0.69	0.47
2006-2007	0.57	0.84	0.97	1.17	0.66
2007-2008	0.42	0.59	0.81	0.93	0.49
2008-2009	0.72	1.08	0.44	1.32	0.75
2009-2010	0.96	1.17	0.90	1.56	1.01
2010-2011	1.12	1.20	0.83	1.65	1.13
2011-2012	0.87	0.33	1.05	1.29	0.89
2012-2013	0.82	0.58	0.97	1.54	0.88
2013-2014	0.83	0.7	0.91	1.65	0.90

(**Source**: Report on Trend&Progress of BankinginIndia, RBI)

Table-1showsa comparative profit performance (NetProfitasa %ofTotalAssets)ofdifferentBank- Groups duringthe period2002– 2014.Animportantaspectof bankingsoundnessamplyechoedinhighcapitaladequacy ratios.Banks wouldbeinabetterpositiontoenlargetheirequity base through publicissues,ifthebanksare in sound financialconditionandenjoyinvestor’sconfidenceandcontinuetoobservevariousprudentialmeasuresprescribedfrom timetotime.Anotherwaytoenhancecapitalratioisthroughreinvestedprofits.Thus,enhancingthestrengthofthebankin ginstitutionsdependsupon the in herent strength and efficiency of any bank. Thus, wecannotaffordtheluxuryofignoring profitabilityofbanksandfactorscontributinginenhancingthesame.Inviewoftheforegoing, the quest for profitability iscentralboth from the point of view of safeguarding andstrengtheningtheviabilityofbanksandtheirabilitytoservethesocio-economicobjectivesof the society. In this context, identification of determinants of profitability would facilitate efficient use of bankers resources and long-term banking performance.

II. OBJECTIVESOFTHE STUDY

Theobjectiveofthisstudy istoidentify how Indian banking sector functions with the available oppprtunitiesand to meet the emerging challenges in a competitive technological intensive business environment.

III. REVIEWOFLITERATURE

Passah, P.M.(2002),analyzedtheIndianfinancial systemcomprising thecommercialbanks,the financialinstitutionsandthecapitalmarkets.HeconcludedthatthereisaseachangeintheIndianbanking sector in thepost-financial sector reforms.

Zhou's(2004)study ison"ThedimensionsofcustomersatisfactioninTheChineseretailbanking".Thefactorscontributing tocustomersatisfactionare determined usingthe modelof SERVPERF.Her studypoints thatempathyor responsiveness oftheemployees,reliability orassurancefromthebankand tangibilityofservicesare theimportantfactors affectingcustomersatisfaction.

Bhayani(2005)conducteda studyamong200 customersonthe retail bankingawarenessofprivatebanks, nationalizedandco-operative banksinthe Rajkotcity ofGujarat.Theconclusionshearrivesatisbecauseofthelowliteracy amongthecustomers,theyarenotawareof technologyassistedbankingservices.

AmitandAnwarin(2006)view thatmostoftheIndian banks areproviding retail bankingservices like phone banking, internet banking, multi-city chequefacility,any branchbankingandbillpay services.Alongwiththistechnologybased services,banksareconcentratingonbusinessintelligenceforproviding better customerservices.

Molina,Martin-Consuegra,and Esteban (2007)have made a studyon "The impact of relational benefits on customer satisfaction inSpanish retail banking".Itisanempiricalstudy usingasampleofcustomersregardingthe relationshipbetweenrelationalbenefitsand customersatisfaction.Theirstudyshows thatconfidencebenefitshaveadirect,positive effectonthesatisfactionlevelof customerswiththeirbank.

ManojKamarJoshi (2008)inhisarticleentitled "Customerserviceinretail banking inIndia"discussesthevariousserviceaspectsofIndianbanksinretail banking.Hefindsthatthroughtheuseofmoderntechnology,theyprovidehighstandardandquality customerserviceandthishelpsthemtosucceedinthe competitive world of retailbanking.

Al-EisaandAlhemoud(2009)studiedthemostimportantattributesthat influencecustomer satisfaction withretailbanksinKuwait. They alsomeasured the levelofoverallsatisfaction ofthecustomers of thesamplebanks. They observe thatthemost important factors forpredictingcustomersatisfactionwith retailbanksinKuwait arefastservice,availabilityofself-banking servicesandcourtesyandhelpfulnessof employees.

Bhaskaran(2010)inthearticle"Impactoffinancialcrisisonbanksin India" views thattheimpactoffinancial crisisismoreonprivate sector banks. Nonperformingassetshaveincreasedinallbankingsectors.TheincreaseinNPA precededthefinancialcrisisandcoincidedwiththeretailboom.

Aparna Mishra andKaminiTandon(2011)whostudied"Customercentric approachtowardsretailbanking services" find thattheimportantfactoraffecting customersatisfactioninretailbankingisservicequality.Thecustomerretentioncan beensuredonlythroughthequalityofserviceprovidedbythebanks.
AashishShashikantJani(2012)inhiscomparativestudyontheuseof technology inretailbanking amongpublicandprivatesectorbanksargues thate- channelsarepreferred bycustomersbecauseofcostandtimeutility.Hersuggestion is that in this era of information technology, the public sector banks have to introducemoretechnology basedproductsandservicestocompetewithotherbank

AshokKumar(2013)in hisstudy"OpportunitiesandchallengesintheIndianretailbankingindustry"concludesthatforthedevelopmentofretailbankingin India,aparadigmshiftisrequiredinbankfinancing throughinnovativeproductsand mechanismsinvolvingconstantup-gradation ofthebanks internalsystemsand processes.Hesaysthat retail bankinghasmorescopeforgeneratingprofitthananyothertraditionalmethods.
Gokilamani,andNatarajan(2014)intheirstudyopinethatcustomersof Indiancommercialbanksarepositively responding toretailbanking.Itisimportant

forbankstofocusonservicequalityforstrengtheningtheircompetitiveedgeandto allocate the limited resources to serve the personal banking division. They further views that the success so fare tail bank will depend on product innovation, technologicaldevelopmentsandstrategiesto retaintheretail customers.

IV. RECENT TRENDS IN BANKING SECTOR

Today, we have fairly well developed banking system with different types of banks – publicsector banks, private sector banks, foreign banks, co-operative banks and rural banks. TheReserve Bank of India (RBI) is at the supreme of all the banks.Diversification & Growth in banking sector has exceeded beyond limits all over the world. In1991, Indian banking has been set up with the proposed relaxation in the norms for ForeignDirect Investment whereby the Government opened the doors for foreign banks to start theiroperations in India and provide their wide range of facilities, thereby providing a strongcompetition to the domestic banks, and helping the customers in availing the best of theservices.The growing competition, growing expectations led to increase awareness amongst banks onthe role & importance of technology in banking. Indian banking sector, today is in the midstof an IT revolution. The application of IT and e-banking is becoming the order of the daywiththe banking system heading towards virtual banking. Most of banks provide variousservices such as Mobile banking, SMS & Net banking and ATMs to their customers for their convenience. The use of technology has brought a revolution in the working style of thebanks.Bankingtoday has transformed into a technology intensive and customer friendlymodel with a focus on convenience.Some of the opportunities for Indian banks if products & services are paralleled with therecent advancements:

1)Electronic Payment Serviceslike E-Cheques- Now-a-days we are hearing about e-governance, e-mail,commerce etc. In the samemanner, a new technology is being developed in US for introduction of e-cheque, whichwill eventually replace the conventional paper cheque. In India, the NegotiableInstruments Act has already been amended to include: Truncated cheque and E-chequeinstruments.

2)Real Time Gross Settlement (RTGS)- Real Time Gross Settlement system, introduced in India since March 2004, is a systemthrough which electronics instructions can be given by banks to transfer funds from theiraccount to the account of another bank. The RTGS system is maintained and operated bythe RBI and provides a means of efficient and faster funds transfer among banksfacilitating their financial operations. Therefore, money can reach the beneficiaryinstantaneously and the beneficiary's bank has the responsibility to credit the beneficiary'saccount within two hours.

3) Electronic Funds Transfer (EFT)- Electronic Funds Transfer (EFT) is a system whereby anyone who wants to make payment to another person/company etc. can approach his bank and make cash paymentor give instructions/authorization to transfer funds directly from his own account to the bank account of the receiver/beneficiary. RBI is the service provider of EFT.

4)Electronic Clearing Service (ECS)- Electronic Clearing Service is a retail payment system that can be used to make bulk payments/receipts of a similar nature especially where each individual payment is of arepetitive nature and of relatively smaller amount. This facility is meant for companiesand government departments to make/receive large volumes of payments rather than forfunds transfers by individuals.

5)Automatic Teller Machine (ATM)- Automatic Teller Machine is the most popular device in India, which enables thecustomers to withdraw their money 24 hours a day 7 days a week. It is a device thatallows customer who has an ATM card to perform routine banking transactions withoutinteracting with a human teller.

6)Point of Sale Terminal (POS)- Point of Sale Terminal is a computer terminal that is linked online to the computerizedcustomer information files in a bank and magnetically encoded plastic transaction cardthat identifies the customer to the computer. During a transaction, the customer's accountis debited and the retailer's account is credited by the computer for the amount of purchase.

7)Tele Banking: Tele Banking facilitates the customer to do entire non-cash related banking on telephone.Under this devise Automatic Voice Recorder is used for simpler queries and transactions.For complicated queries and transactions, manned phone terminals are used.

V. RESEARCHMETHODOLOGY

For The purpose of this study statistical data relating to performance of different categories of banks have been taken into consideration. Further simple statistical tools like mean has been used for comparative study on the performance of different categories of banks. For the said purpose the banks have been categorized into sevengroups forour study, viz.:

A. Scheduled CommercialBanks
B. StateBank Group
C. PrivateSector Banks
D. ForeignBanks

5.2. STUDY PERIOD
Thestudycoverssecondarydataforaveryrecentperiodof3years,rangingfrom2011-12to 2013-14.

4.4. HYPOTHESIS
"NetProfitofdifferentbankgroupsdependsupon InterestIncome,OtherIncome,Interest Expenses, Operating Expenses, Net NPA and Spread."

TABLE 2.IMPORTANT FINANCIAL INDICATORS-(2011– 2014)
(% Total Assets)

BankGroups / Years	**Net Profit %**	**Interest Income %**	**Other Income %**	**Interest Expenses %**	**Operating Expenses %**	**Net NPA %**	**Spread (NII) %**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
(A) Scheduled Commercial Banks:							
2011-12	0.89	6.61	1.46	3.78	2.13	1.28	2.83
2012-13	0.88	6.65	1.27	3.85	2.13	1.07	2.81
2013-14	0.90	6.85	1.12	4.16	1.91	1	2.69
Mean	**0.89**	**6.70**	**1.28**	**3.93**	**2.06**	**0.72**	**2.78**
(B) StateBank Group:							
2011-12	0.91	7.02	1.51	3.96	2.14	1.53	3.06
2012-13	0.86	7.13	1.38	4.05	2.28	1.31	3.07
2013-14	0.82	6.99	0.97	4.2	1.98	0.96	2.79
Mean	**0.86**	**7.05**	**1.29**	**4.07**	**2.13**	**0.89**	**2.97**
(C)Private SectorBanks:							
2011-12	1.05	5.77	1.74	3.6	2.06	0.8	2.17
2012-13	0.97	5.89	1.63	3.62	2.12	0.81	2.27
2013-14	0.91	6.75	1.65	4.41	2.11	0.97	2.34
Mean	**0.98**	**6.14**	**1.67**	**3.88**	**2.10**	**0.59**	**2.26**
(D)Foreign Banks:							
2011-12	1.29	5.97	2.52	2.63	2.88	1.69	3.34
2012-13	1.54	6.17	2.69	2.58	2.94	1.8	3.58
2013-14	1.65	6.48	2.5	2.74	2.78	1.8	3.74
Mean	**1.49**	**6.21**	**2.57**	**2.65**	**2.87**	**0.39**	**3.55**

(**Source**:TrendandProgressofBankinginIndiaandBalancesheetsofrespective banks.)

From the above table it is found that the performance i.e. Mean of State bank groups is more than that of Scheduled commercial banks except the net profit during the period of study. However on the whole it is found that the overall performance of Foreign Banks is better than all other banking groups in India during the period of study i.e. from 2011 to 2014.

CHALLENGESANDOPPORTUNITIES FOR INDIAN BANKING SECTOR

TheIndianbankingsectorcontinuestofacesomestructuralchallenges.Wehavearelativelylargenumberofbanks,someo fwhicharesub-optimalinsizeandscaleofoperations.Ontheregulatoryfront, alignmentwithglobaldevelopments inbankingsupervisionisafocusareaforbothregulators andbanks.The new international capitalnormsrequireahighlevelofsophisticationinriskmanagement,information systems, andtechnology whichwouldposeachallengeformany participantsintheIndian banking sector. Thedeepand oftenpainfulprocessofrestructuring intheIndianeconomyandIndianindustryhasresultedinassetquality issuesforthebanking sector;whilesignificantprogressisbeingmadein thisarea,agreatdealofwork towards resolutionoftheselegacyissuesstillneedstobedone.TheIndian bankingsectoristhusatanexciting pointin itsevolution.Theopportunitiesareimmense–toenternewbusinessesandnewmarkets,todevelopnewways ofworking,toimproveefficiency, andtodeliverhigherlevelsofcustomerservice.Theprocess ofchange and restructuringthat mustbe undergonetocapitalizeontheseopportunitiesposesa challengeformanybanks.TheIndianbankingsectorisfacedwithmultipleandconcurrent challenges suchasincreased competition, risingcustomerexpectations, anddiminishingcustomerloyalty.Thebanking industryisalso changingataphenomenalspeed.Whileatthe one end, we havemillionsof saversandinvectorswhostilldonot useabank,anothersegmentcontinues tobankwithaphysical branchand at the otherendofthespectrum, the customersarebecomingfamiliarwithATMs,e-banking,andcashlesseconomy. Thisshowstheimmense potentialformarketexpansion.Theexponentialgrowthfortheindustrycomesfrombeingabletohandleas wide arrange ofthisspectrumspossible.Inthiscomplexandfastchangingenvironment,theonlysustainable competitiveadvantageistogive thecustomeranoptimumblendoftechnologyandtraditionalservice.As banks develop theirstrategies forgivingcustomersaccessto their accountsthroughvarious advancedservices likee-banking,mobilebanking andnetbanking,they shouldalsoregardthis emerging platformasapotentialcatalyst forgeneratingoperationalefficienciesandasavehiclefornewrevenuesources.

Bankingindustry‘sopportunitiesincludes:

a) Agrowingeconomy
b) Bankingderegulation
c) Increasedclientborrowing
d) Anincreaseinthenumberofbanks
e) Anincreaseinthemoneyapply
f) Lowgovernment-setcreditratesandLargercustomerchecking account balances.

1 - Developing country: Developing countries like India, has a huge number of people who don‘t have access to bankingservicesduetoscatteredandfragmentedlocations.Butifwetalkaboutthosepeoplewhoareavailingbankingserv ices,theirexpectationsareraisingasthelevelofservicesareincreasingduetotheemergenceofInformationTechnologya ndimmensecompetitionbetweentheservicesand productsprovidedbydifferent banks. Sinceforeign,banks areplayingin Indian market,the numberof servicesofofferedhasincreasedandbankshavelaidemphasison meetingthecustomerexpectations.India's banking sector has made rapid strides in reforming andaligning itself to the new competitivebusinessenvironment.The majorchallengesfacedbybankstodayareasto howto cope withcompetitiveforcesandstrengthentheirbalancesheet. Today,banksaregroaningwithburden ofNPA‘s.Itisrightlyfelt thatthesecontaminateddebts,ifnotrecovered,willeatintothe veryvitalsofthebanks.

2-IndianConsumer

ThebiggestopportunityfortheIndianbankingsystemtodayistheIndianconsumer.Demographicshiftsintermsofincom elevelsandculturalshiftsintermsoflife styleaspirationsarechangingthe profileofthe Indianconsumer.The Indianconsumernow eekstofulfillhislifestyleaspirationsatayoungeragewithanoptimalcombinationofequityanddebtto financeconsumptionandassetcreation.Thisisleadingtoagrowingdemandforcompetitive,sophisticated retailbankingservices.Theconsumerrepresentsamarketforawiderangeofproductsandservices–he needsa mortgagetofinancehishouse;anautoloanforhiscar;acreditcardforon-going purchases; abankaccount;a long-term investment plantofinancehischild‘shighereducation;apensionplanforhisretirement; alife insurancepolicy–the possibilitiesareendless.And,thisconsumerdoesnotlivejustinIndia‘stopten cities.He ispresentacrosscities,towns,andvillagesasimprovingcommunicationsincreasesawarenesseveninsmalltownsandrur alareas. Consumergoodscompaniesarealreadytappingthispotential–itisfor thebanksto markethemostoftheopportunitytodeliversolutionstothismarket.

3-RevolutionofInformationTechnology

Technologyisthekeytoservicingall customer segments–offeringconveniencetotheretailcustomerandoperatingefficienciestocorporateandgovernmentclients.Theincreasing sophistication, flexibility,and complexityofproductandservicingofferingsmakestheeffectiveuseoftechnology criticalformanagingthe risksassociatedwiththebusiness.Developingoracquiringtherighttechnology,deployingitoptimally,and thenleveraging ittothemaximum extentisessentialtoachieveandmaintainhighserviceandefficiency standardswhileremainingcost-effective anddeliveringsustainable returnstoshareholders. Earlyadoptersof technologyacquiresignificantcompetitiveadvantage.Managingtechnologyis,therefore,akeychallengefor theIndianbankingsector.Widedisparities existbetweenvariousbanksasfarastechnology capabilitiesare concerned;the sectorasawholeneedstomakesignificantprogressonthisfront.Banks mayhavetogoformobilebankingservicesforaclusterof villages. Alternatively,technological institutionshavestocomeoutwithlow-cost,self-servicesolutions/ATMs.Thegovernment and the RBIshould activelysupportsuchresearchefforts.Here,itisworthwhiletomentionthattheadaptabilityoftheIndianrural populationtohigh-techdevicesisoneofthefastestintheworld.Awiderdissemination ofinformationon technologies andproductstotheIndianbankingindustry bytheresearchinstitutionscouldbenefitthebanking institutions.This cross-pollinationofideaswouldmutuallyenrichthe bankingandthetechnologydevelopment processes.TheIndianbanksaresubjecttotremendouspressurestoperformasotherwisetheirverysurvivalwouldbeatstake.The applicationofITande-bankingisbecomingtheorderofthe daywiththebankingsystemheading towards virtualbanking.

4-IndustrialDevelopment

ThedevelopmentsinIndianindustryandgovernmentandtheintegrationofIndiawiththeglobalmarkets alsooffer innumerable opportunities to the banking sector. Companies andgovernments are increasinglyseekinghigh-quality bankingservicestoimprovetheirownoperatingefficiency.Companiesseek toofferbettercustomerserviceandmaximize shareholder returnsandgovernments seektoimprovethequality ofpublicservices. TheinternationalizationofIndiaoffersbankstheopportunitytoservicecross-borderneedsofIndiancompaniesandIndia-linkedneedsof multinationals.

5-KnowledgeSociety

Buildingknowledge-driven,learningorganizationsisimportantinthecurrentscenarioofrapidlyevolvingoperatingenvironments.Knowledgeandassimulationofnewideas andtrendsareessential tokeepthe organizationaheadonthecurve.Thisistrueforbanking asitisforallothersectors.Banksmustcontinuously seektobeawareofcutting edgepractices inbanking internationallyandinstitutionalizethislearningacrossthe organization.ThiswillpreparethemforthefutureasIndianmarkets becomemoresophisticatedandintegrated intotheglobalfinancialmarkets. AnothercriticalareafortheIndianbankingsectorispeople.Theability to attractandretaintalentisakeysuccessfactorfor apeople-orientedbusinesslikebanking.Bankshavetobuild organizationsthatareprocessdrivenyetinnovative,stableyet flexible,andresponsivetochange.

6-IntenseCompetition

TheRBIandGovernmentofIndiakeptbankingindustryopenfortheparticipantsofprivatesectorbanksandforeignbanks. TheforeignbankswerealsopermittedtosetupshoponIndia either asbranches oras subsidiaries. Due to this lowered entry barriers many new players have entered the marketsuchasprivatebanks,foreignbanks,non-bankingfinancecompanies,etc.The foreignbanksand newprivatesectorbankshavespearheadthehi-tech revolution. Forsurvivalandgrowthinhighlycompetitive environmentbankshaveto followthepromptandefficientcustomerservice,whichcallsforappropriate customercentricpoliciesandcustomerfriendlyprocedures.

7-Employees'Retention

Thebankingindustryhastransformedrapidlyinthelasttenyears,shiftingfromtransactionalandcustomerservice-oriented toanincreasinglyaggressive environment,wherecompetitionforrevenueisontop priority.Long-time bankingemployees arebecoming disenchantedwiththe industryandareoftenresistantto performuptonewexpectations. Thediminishingemployeemoraleresultsindecreasedrevenue.Duetothe intrinsically close tiesbetweenstaffandclients,losingthoseemployeescompletelycanmeanthelossof valuablecustomerrelationships. Theretailbankingindustry isconcernedaboutemployeeretentionfromall levels:fromtellerstoexecutivestocustomer servicerepresentativesbecausecompetitionisalwaysmovinginto hirethemaway.

8-Financialinclusion

Financialinclusionhasbecomeanecessity intoday‘sbusinessenvironment. Whateverisproducedbybusiness housesthat have tobe under the check from various perspectiveslike environmentalconcerns, corporategovernance, social andethicalissues.Apartfrom ittobridgethegapbetweenrichandpoor, thepoor peopleofthecountryshouldbegivenproper attentiontoimprovetheireconomiccondition. InIndia,RBIhas initiatedseveral measurestoachieve greater financialinclusion,suchasfacilitatingno-frillsaccountsandGCCs for smalldepositsandcredit.

9-RuralMarket

BankinginIndiaisgenerallyfairlymatureintermsofsupply,productrangeandreach,eventhoughreachinruralIndiastillr emainsa challengefortheprivatesectorand foreignbanks.Intermsofqualityofassets andcapitaladequacy,Indianbanksareconsideredtohaveclean,strongandtransparentbalancesheets relative tootherbanks incomparableeconomies initsregion.Consequently,wehaveseensomeexamplesofinorganic growthstrategyadopted bysomenationalized andprivate sectorbankstofaceupcomingchallengesinbanking industryof India.Forexamplerecently,ICICIBankLtd.mergedthe BankofRajasthanLtd. inordertoincrease its reachinruralmarketandmarketshare significantly.StateBank ofIndia(SBI),thelargestpublic sectorbank inIndiahasalsoadoptedthesamestrategytoretain itsposition.Itisintheprocessofacquiring itsassociates. Recently,SBIhas mergedStateBankofIndorein2010.

10-HighTransactionCosts

Amajorconcernbeforethebanking industry isthehightransaction costofcarryingnon-performing assetsintheirbooks.Thegrowthledtostrainsintheoperationalefficiencyofbanksandtheaccumulationofnon-performingassets(NPA's) Intheirloanportfolios.

11-SocialandEthicalAspects

Therearesomebanks,whichproactivelyundertaketheresponsibilitytobearthesocialandethicalaspectsofbanking.This isachallengeforcommercial bankstoconsidertheseaspectsintheirworking.Apart fromprofitmaximization, commercialbanksaresupposedtosupportthoseorganizations,whichhavesome socialconcerns.

12-TimelyTechnologicalupgradation

Alreadyelectronictransfers,clearings,settlementshavereducedtranslationtimes.Tofacecompetition itis necessaryfor banksto absorbthetechnologyandupgradetheirservices.

13-Globalbanking

Theimpactofglobalizationbecomeschallengesforthedomesticenterprisesastheyareboundtocompetewithglobalplayers.IfwelookattheIndian Banking Industry,thenwefindthatthereare36foreign banksoperating inIndia,whichbecomesamajorchallengefor Nationalizedandprivatesectorbanks.

VI. CONCLUSION

The pre and post liberalization era has witnessed various environmental changes whichdirectly affects the aforesaid phenomena. It is evident that post liberalization era has spreadnew colors of growth in India, but simultaneously it has also posed some challenges.This article discusses the various challenges and opportunities like High transaction costs, ITrevolution, timely technological up-gradation, intense competition, privacy & safety, global banking, financialinclusion. Banks are striving to combat the competition. The competitionfrom global banks and technological innovation has compelled the banks to rethink theirpolicies and strategies. Different products provided by foreign banks to Indian customershave forced the Indian banks to diversify and upgrade themselves so as to compete andsurvive in the market.

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