

CHALLENGES BEFORE THE INDIAN BANKING SECTOR

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ABSTRACT

In recent years, there has been a considerable widening and deepening of the Indian financial system, of which banking is a significant component. With greater liberalization, the financial system has come to play a much larger role in the allocation of resources than in the past and its role in future can be expected to much larger it than at present. Given the- significance of the Indian banking system in the allocation of resources, one cannot afford to underplay the importance of a strong and resilient banking system.

Keywords: *Financial System, Liberalization, Banking System, LPG.*

Introduction

The wind of Liberalization, Privatization and Globalization (LPG) has opened new vistas in the banking industry in the generation of intensely competitive environment. The players are competing like never before. Yesterday's stars are no longer shining; new stars are emerging on the horizon. The Indian banks are performing better than most others to not only keep up in the race, but to sustain itself against unprecedented global turmoil's which keeps coming up every now and then. The information age environment requires new capabilities for competitive success. The ability of the organization to mobilize and exploit its intangibles has become more decisive than investing in and managing of physical resources. It is rightly said that anything which can be measured can be controlled. Measuring organizational performance has been an important area and it has undergone continuous development and modification.

Major challenges which Indian banking sector are facing today and which are likely to be more poignant in the ensuing years in view of the irreversible process of the reforms and resultant verisimilitude of many players entering the banking sector are discussed

Problem of Pressure on Profitability

The greatest challenge which Indian banking sector are facing in recent years arises out of pressure on their profitability. With continuous expansion in number of branches and manpower, thrust on social and rural banking, directed sectors lending maintenance of higher research ratios, waiver of loans under ARDR type concessions, repayment default by large industrial corporate and other borrowers, etc, had their telling impact on the profitability of the banks.

Problem of Low Productivity

Another ferocious challenge which Indian banking sector are confronting is low productivity. The low productivity has been due to huge surplus manpower, absence of good work culture and absence of employees' commitment to the organization.

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Problem of Non-performing Assets (NPA)

A Serious lineal to the survival and success of Indian banking system is uncomfortably high level of non-performing assets. In its Report on Trend and progress of Banking of India. 1997-98, the RBI reported that gross NPAs as percentage of advances of PSBs was 16 percent as on March 31, 2000 with a colossal amount of about Rs.52.000 crore being locked up. This might have recently recorded further increase due to default in repayment by the industrial units affected by the two-year old recession. This is much higher than the international level of below 5%

Problems from Customers

In view of competitive forces, fast changing life style and values of customers who are now better informed, have a wide choice to choose from various banking and non banking intermediaries, become more demanding and their expectation in terms of products, delivery and price are increasing, the PSBs lacking in customers orientation are finding it difficult to even retain their highly valued customers what to talk of attracting the new client particularly when the foreign banks as also the new breed of private sector banks have embarked upon aggressive marketing programs aiming at niche markets.

Competition from Private Banks

The commercial banks in India which enjoyed monopoly position until recently are facing perilous challenges particularly on quality, cost and flexibility fronts from the newly emerging players who by dint of their invigorating' ambience and work culture supported by pragmatic leadership committed, courteous, affable and friend staff and modern Uttar gadgets are offering excellent customer services and marking in roads in the business centers.

Competition from MNCs

Globalization and integration of Indian financial market with world and the consequent entry of foreign players in domestic market has infused, in its wake, brutal competitive pressure on the Indian commercial banks. Foreign players endowed with robust capital adequacy, high quality assets, world-wide connectivity benefits of economies of scale and stupendous risk management skills are posing serious threats to the existing business of the Indian banks.

Problem of Managing Dual of Ownership

Managing duality of ownership is a peculiar problem which the PSBs have to encounter because of participation of private shareholders in their share capital. A public sector bank to survive and grow successfully is expected to operate according to the expectations of one of its principal shareholders. In the changed scenario, there would be two major groups of shareholders, viz., the Government of India and RBI on the one hand and the private shareholders, on the other. Since the expectations of these two categories of owners are not necessarily identical, the bankers will have to manage conflicting interests.

Problem of Managing Customers' Diverse Strata

Another very important challenge which PSBs are faced with is managing two ends of spectrum of banking services. PSBs, unlike their counterparts in the private sector as also the foreign banks have two faces; a commercial side and non-commercial side, each having various strata. In a country like India with wide disparities in needs, standards and ways of living of the people in various regions, the bank' eis are expected to manage these different strata in its total expanse equally well without ignoring any of the or even performing one at the expense of the other.

Challenge of Qualitative Changes in Banking Paradigm

The greatest challenge which Indian banks are facing is to bring about change in the mindsets and attitude of the employees and inculcate. Bank employees in India as noted earlier, are highly cynical and less motivated with decreasing loyalty towards their work life. They are not very much concerned with their productivity and Jack cost consciousness. Strong and militant trade unions resisting any organizational change and archaic approach of managing have also been the barriers to bank development

Materials and Methods

For the purpose of in-depth study, the contents have been taken from interviews, relevant books and articles from journals and websites. The method used is analytical and descriptive. Both primary as well as secondary source of information have been taken.

Conclusion

For a successful banking business management and analysis of large data and information play key roles in devising new strategies, products and services, with the cost of technology falling and their capacities increasing day-to-day, data warehousing has become affordable. Banks should set up their own intranets and extranets, which will be soon to both employees and customers, spread over wide geographic locations. We are in an era where technology is all-pervasive. However, in service like banking due-care has to be taken while embracing technology and transforming traditional touch points to electronic ones, so that human touch with customers is not lost.

In the end, it can be rightly said that productivity and efficiency will be the watch words in the banking industry in the years ahead. Strategizing organizational effectiveness and operational efficiency will govern the survival and growth of ' profits changes in the mindset of the employees is imperative with the changing times. Continuous quest for skill up gradation at all levels, development of vision and mission and commitment are some of the aspects which required urgent attention by the banking sector in future.

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