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INDIAN BANKING INDUSTRY: EXPERIMENTS AND PROSPECTS

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ABSTRACT

The banking industry in India has an enormous picture of relic, which buffers the accustomed banking Practices from the period of Britishers to the progresses antique, nationalization to denationalization of banks and currently mounting statistics of overseas banks in India. Subsequently, Banking in India has been comprehensive an extensive journey. The Banking Industry of India has also proficient a new height with the capricious times. The use of technology has ecstatic an uprising in the functioning style of the banks. Nevertheless, the critical aspects of banking i.e. trust and the assertion of the individuals on the business remain the same. The typical of the banks are still effectual in keeping with the assertion of the stockholders as well as other contributors. Nevertheless, with the fluctuating diminuendos of banking business carries new kind of hazard acquaintance. In this paper an effort has been made to recognize the overall views, experiments and prospects for the Indian Banking Industry. This editorial is divided in three parts. First part includes the outline and general scenario of Indian banking industry. The second part deliberates the various experiments and prospects faced by Indian banking industry. Third part undertakes that crucial importance is required on the Indian banking creation and marketing approaches in order to get maintainable competitive advantage over the penetrating rivalry from nationwide and worldwide banks. This article is a small stone to prevailing subdivision of knowledge in banking industry and is useful for bankers, policy makers, strategist and researchers.

KEYWORDS: Customer Retention, Risk Management, Global Banking, stockholders.

INTRODUCTION

In recent time, we has witnessed that the World Economy is passing through some intricate circumstances as bankruptcy of banking and financial institutions, debt 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 extension, increasing productivity and profitability similar to banks in established marketplaces, lesser frequency of non- acting assets and focus on financial inclusion have contributed to making Indian banking vivacious and durable. Indian banks have begun to revise their growth approach and re-evaluate 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.

Historical Background

Bank of Hindustan was set up in 1870; it was the earliest Indian Bank. Later, three presidency banks 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. 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 Reserve Bank of India (RBI) was constituted as an apex body without major government ownership. Banking Regulations Act was passed in 1949. This regulation brought RBI under government control. Under the act, RBI got wide ranging powers for supervision and control of banks. The Act also vested licensing powers and 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 nationalized 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. Nationalization of banks was to make them play the role of catalytic agents for economic growth. The Narasimha 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.

Banking industry is the back bone for growth of any economy. The drive of Indian Banking Business has faced many waves of financial disaster. Recently, we have seen the financial disaster of US in 2008-09 and now the European disaster. The general scenario of the 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 Banking Business, initially, we must recognize the general scenario and structure of Indian Banking Industry.

Common Banking Depiction in India

The banking depiction in India has become very enthusiastic now-a-days. Formerly pre-liberalization era, the image of Indian Banking was entirely disparate as the Government of India introduced measures to play a vital role in the economic life of the nation, and the Industrialized Policy Obstinacy presumed by the government in 1948 envisaged a mixed economy. This occasioned into greater participation of the state in diverse segments of the economy counting banking and finance.

The Reserve Bank of India was nationalized on January 1, 1949 under the footings of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948. In 1949, the Banking Regulation Act was passed which endowed the Reserve Bank of India (RBI) "to regulate, control, and inspect the banks in India." The Banking Regulation Act also delivered that no

branch of an existing bank or new bank could be released without a authorization from the RBI, and no two banks could have collective directors.

By the 1960s, the Indian banking business had become a significant tool to simplify the speed of expansion of the Indian economy. The Government of India issued an regulation and nationalized the 14 major commercial banks with effect from the midnight of July 19, 1969. A second dose of nationalization of 6 more commercial banks trailed in 1980. The stated motive for the nationalization was to give the government more regulator of credit delivery. With the second measure of nationalization, the Government of India organized around 91% of the banking business of India. Future, in the year 1993, the government amalgamated New Bank of India with Punjab National Bank. It was the only merger between nationalized banks and resulted in the reduction of the number of nationalized banks from 20 to 19. After this, until the 1990s, the nationalized banks grew at a pace of around 4%, closer to the typical growth rate of the Indian economy.

Challenges Faced By Indian Banking Industry

Developing countries like India, still has a enormous figure of people who do not have access to banking facilities due to dispersed and disjointed localities. But if we talk about those people who are availing banking facilities, their prospects are rising as the level of services are growing due to the advent of Information Technology and competition. Since, overseas banks are playing in Indian marketplace, the number of facilities offered has enlarged and banks have laid weight on meeting the customer prospects.

Now, the existing condition has created various challenges and opportunity for Indian Commercial Banking institutions. In order to encounter the general depiction of banking industry we need to appreciate the challenges and opportunities lying with banking industry of India.

- **Rural Market**

Banking in India is normally 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 overseas 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 inanimate growth strategy assumed by some nationalized and private sector banks to face upcoming challenges in banking industry of India. For example newly, ICICI Bank Ltd. merged the Bank of Rajasthan Ltd. in order to increase its reach in rural market and market share expressively. State Bank of India (SBI), the largest public sector bank in India has also adopted the same stratagem to retain its position. It is in the process of acquiring its associates. Recently, SBI has merged State Bank of Indore in 2010.

- **Management of Risks**

The growing rivalry increases the effectiveness among banks. However, existing global banking depiction is seriously posing threats for Indian banking industry. We have already witnessed the insolvency of some overseas banks.

According to Shrieves (1992), there is a positive association between changes in risk and capital. Research studied the large sample of banks and results reveal that regulation was partially effective during the period covered. Moreover, it was concluded that changes in bank capital over the period studied was risk-based.[1]

Wolgast, (2001) studied theMerger and acquisition activity among financial firms. The author focused bank supervisors in context with success of mergers, risk management, financial system stability and market liquidity. The study concluded that large institutions are able to maintain a superior level of risk management.[2]

- **Growth of Banking**

Zhao, Casu and Ferrari (2008) used a balanced panel data set covering the period of 1992-2004 and employing a Data Envelopment Analysis (DEA)-based Malmquist Total Factor Productivity (TFP) index. The empirical study indicated that, after an initial adjustment phase, the Indian banking industry experienced sustained productivity growth, which was driven mainly by technological progress. Banks' ownership structure does not seem to matter as much as increased competition in TFP growth. Foreign banks appear to have acted as technological innovators when competition increased, which added to the competitive pressure in the banking market. Finally, our results also indicate an increase in risk-taking behavior, along with the whole deregulation process.[5]

It was found in the study of Goyal and Joshi (2011a) that small and local banks face difficulty in bearing the impact of global economy therefore, they need support and it is one of the reasons for merger. Some private banks used mergers as a strategic tool for expanding their horizons. There is huge potential in rural markets of India, which is not yet explored by the major banks. Therefore ICICI Bank Ltd. has used mergers as their expansion strategy in rural market. They are successful in making their presence in rural India. It strengthens their network across geographical boundary, improves customer base and market share.[6]

- **Market Discipline and Transparency**

According to Fernando (2011) transparency and disclosure norms as part of internationally accepted corporate governance practices are assuming greater importance in the emerging environment. Banks are expected to be more responsive and accountable to the investors. Banks have to disclose in their balance sheets a plethora of information on the maturity profiles of assets and liabilities, lending to sensitive sectors, movements in NPAs, capital, provisions, shareholdings of the government, value of investment in India and abroad, operating and profitability indicators, the total investments made in the equity share, units of mutual funds, bonds, debentures, aggregate advances against shares and so on.[7]

- **Human Resource Management**

Gelade and Ivery (2003) examined relationships between human resource management (HRM), work climate, and organizational performance in the branch network of a retail bank. Significant correlations were found between work climate, human resource practices, and business performance. The results showed that the correlations between climate and performance cannot be explained by their common dependence on HRM factors, and that the data are consistent with a mediation model in which the effects of HRM practices on business performance are partially mediated by work climate.[8]

Bartel (2004) studied the relationship between human resource management and establishment performance of employees on the manufacturing sector. Using a unique longitudinal dataset collected through site visits to branch operations of a large bank, the author extends his research to the service sector. Because branch managers had considerable discretion in managing their operations and employees, the HRM environment could vary across branches. Site visits provided specific examples of managerial practices that affected branch performance. An analysis of responses to the bank's employee attitude survey that

controls for unobserved branch and manager characteristics shows a positive relationship between branch performance and employees' satisfaction with the quality of performance evaluation, feedback, and recognition at the branch—the "incentives" dimension of a high-performance work system. In some fixed effects specifications, satisfaction with the quality of communications at the branch was also important.[9]

- **Global Banking**

It is practically and fundamentally impossible for any nation to exclude itself from world economy. Therefore, for sustainable development, one has to adopt integration process in the form of liberalization and globalization as India spread the red carpet for foreign firms in 1991. The impact of globalization becomes challenges for the domestic enterprises as they are bound to compete with global players.

If we look at the Indian Banking Industry, then we find that there are 36 foreign banks operating in India, which becomes a major challenge for Nationalized and private sector banks. These foreign banks are large in size, technically advanced and having presence in global market, which gives more and better options and services to Indian traders.

- **Financial Insertion**

Financial insertion has become a necessity in today's business situation. Whatever is produced by business houses, that has to be under the check from various perspectives like environmental concerns, corporate governance, social and ethical issues. Apart from it to bridge the gap between rich and poor, the poor people of the country should be given proper attention to improve their economic condition.

Dev (2006) stated that financial inclusion is significant from the point of view of living conditions of poor people, farmers, rural non-farm enterprises and other vulnerable groups. Financial inclusion, in terms of access to credit from formal institutions to various social groups. Apart from formal banking institutions, which should look at inclusion both as a business opportunity and social responsibility, the author conclude that role of the self-help group movement and microfinance institutions is important to improve financial inclusion. The study suggested that this requires new regulatory procedures and de-politicization of the financial system.[10]

- **Employees' Retention**

The banking industry has distorted quickly in the last ten years, instable from transactional and customer service-oriented to an progressively belligerent atmosphere, where rivalry for income is on topmost significance. Long-time banking personnel are becoming disillusioned with the industry and are often unaffected to perform up to new prospects. The shrinking employee confidence results in diminished income. Due to the essentially close ties between clients and staff, trailing those employees entirely can mean the cost of treasured customer relationships. The retail banking industry is worried about employee preservation from all stages: from cashiers to administrators to customer service senates because competition is always touching in to hire them away.

- **Customer Retention**

Levesque and McDougall (1996) investigated the major determinants of customer gratification and future intents in the retail bank segment. They identified the determinants which include service excellence dimensions (e.g. getting it right the first time), service features (e.g. Competitive interest rates), service recovery, service problems and products used. It was found, in particular, that service problems and the bank's service recovery ability have a major impact on customer gratification and purposes to switch.[14]

Clark (1997) studied the influence of customer-employee interactions on customer retention rates in a chief UK retail bank. He exposed that customer and employee insights of service quality are related to customer retention rates and that employee and customer insights of service quality are associated to each other.[15]

Clark (2002) examined the relationship between employees' perceptions of organizational climate and customer retention in a specific service setting, viz. A major UK retail bank. Employees' perceptions of the practices and procedures in relation to customer care at their branch were investigated using a case study approach. The findings revealed that there is a relationship between employees' perceptions of organizational climate and customer retention at a micro-organizational level. He suggested that organizational climate can be subdivided into five climate themes and that, within each climate theme, there are several dimensions that are critical to customer retention.[16]

Hansemark and Albinsson (2004) discovered how the employees of a company experience the concepts of customer retention and satisfaction. They used phenomenological technique,

permitting the informers' own explanations to be exposed. Satisfaction was deliberated from three standpoints: definition of the thought, how to identify when a customer is gratified, and how to improve gratification. The informers' involvement affecting to these three groupings varied, and a total of seven ways to describe, recognize or improve gratification were exposed. These were: feeling, service, chemistry, confidence and relationship, discourse, grievances and preservation. All except the first two of these groupings of knowledge were found to improve preservation, suggesting that the informers have found that approaches for improving both retention and gratification are parallel.[17] The solidest association between preservation and gratification approaches twisted out to be in terms of association and assurance.

- **Environmental Concerns**

It is quite clear from the recently formed Copenhagen Climate Council (CCC) that there is a severe need for environmental awareness among all the countries of the world. CCC circulated Believed Leadership Sequences on Climate Change which is a collection of stimulating, brief and evidently argued fragments from some of the world's most renowned thinkers and business leaders on environment change. The objective of the pieces is to assist in attractive the public and political awareness of the actions that could have a significant impact on global emissions growth and to disseminate the message that it is time to act. The Believed Leadership Sequences were aimed at spreading and explaining awareness of the key elements in the business and policy response to the climate problem. The rationale for the Believed Leadership Sequences was to change the focus of people.

- **Social and Ethical Aspects**

There are some banks, which proactively undertake the responsibility to bear the social and ethical aspects of banking. It is a experiment for commercial banks to consider the these aspects in their operational. Separately from revenue enlargement, commercial banks are imaginary to sustenance those establishments, which have some societal apprehensions.

Benedikter (2011) defines Social Banks as "banks with a conscience". They focus on investing in communal, giving prospects to the underprivileged, and subsidiary environmental, social, and ethical agendas. Social banks try to invest their money only in endeavors that promote the greater virtuous of humanity, in its place of those, which produce private profit just for a limited. He has also enlightened the chief variance between

mainstream banks and social banks that mainstream banks are in most cases focused solely on the principle of profit enlargement although, social banking apparatuses the tripartite principle of profit-people-planet.[18]

Goyal and Joshi (2011b) have concluded in their study on social and ethical aspects of Banking Industry that Banks can protect themselves as a socially and ethically oriented organization by disbursement of loans merely to those organizations, which has social, ethical and environmental concerns.[19]

CONCLUSION

This article deliberates the various opportunities and challenge like rural market, transparency, customer expectations, management of risks, growth in banking sector, human factor, global banking, environmental concern, social, ethical issues, employee and customer retentions. Banks are pushy to battle the rivalry. The competition from international banks and technological invention has compelled the banks to rethink their strategies and policies.

During the past years, it has been perceived that mists of anxiety and beads of progress are two imperative marvels of market, which repeatedly changes in diverse sets of circumstances. The pre and post liberalization era has watched numerous environmental fluctuations which straight affects the above-mentioned marvels. It is apparent that post liberalization era has binge new colors of development in India, but instantaneously it has also posed some experiments.

SUGGESTIONS

As per the above discussion, we can say that the biggest challenge for banking industry is to serve the mass marketplace of India. Companies have shifted their focus fromproduct to customer. The better we understand our consumers, the more effective we will be in fulfilling their needs. In order to mitigate above mentioned challenges Indian banks must cut their cost of their facilities. Alternative aspect to meeting the tasks is product differentiation. Apart from traditional banking services, Indian banks must adopt some product innovations that they can compete in gamut of opposition. Technology progression is an expected aspect to face challenges. The level of consumer awareness is significantly higher as compared to earlier years. Presently they need mobile banking, internet banking and ATM services.

Expansion of branch size in order to increase market share is another tool to struggle competitors. Consequently, Indian private sector banks and nationalized must spread their

wings towards global markets as some of them have already done it. Indian banks are trustworthy brands in Indian market; therefore, these banks must utilize their brand equity as it is a valuable asset for them.

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