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**REVIEW ARTICLE**

**RECENT TRENDS IN BANKING SECTOR ---- CHALLENGES AND OPPORTUNITIES**

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**ABSTRACT**

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. Therefore, banking in India has been through a long journey. Today banking is known as innovative banking. The use of technology has brought a revolution in the working style of the banks. Information Technology has had a positive impact on substitutes for traditional funds movement services. With networking and interconnection new challenges are arising related to security privacy and confidentiality to transactions. In this paper, an attempt is made to explain the changing banking scenario. The study also identifies the challenges and opportunities for the Indian banking sector in changing banking scenario.

**INTRODUCTION**

The traditional functions of banking are limited to accept deposit and to give loans and advances. Today banking is known as innovative banking. Current banking sector has come up with a lot of initiatives that oriented to provide a better customer services with the help of new technologies. Indian banking sector today has the same sense of excitement and opportunity that is evidence in the Indian economy. In the competitive banking world improvement day by day in customer services is the most useful tool for their better growth. Bank offers so many changes to access their banking and other services. Banks play an important role in the economic development of developing countries. Economic development involves investment in various sectors of the economy. In normal banking, the banks perform agency services for their customers and helps economic development of the country. Bank arranges foreign exchange for the business transactions with other countries. Banking sectors are not simply collecting funds but also serve as a guide to the customer about the investment of their money.

**Objectives of study**

- To explain the changing banking scenario
- To identify the challenges for the Indian banking sector
- To study the opportunities for the Indian banking sector

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**Methodology Used**

The study is based on secondary data. The sources of secondary data include banking books, annual reports of RBI, Internet (websites) and research papers etc.

**Structure of Indian banking sector**

Today, role of banking industry is very important as one of the leading and mostly essential service sector. Banking Industry in India functions under the sunshade of Reserve Bank of India - the regulatory central bank. Banking industry mainly consists of

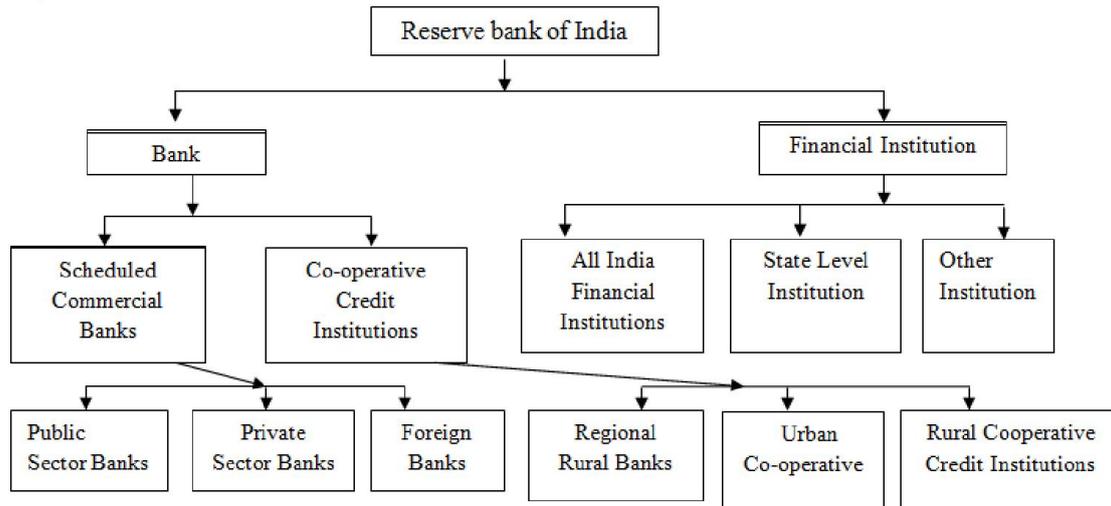
- Commercial banks
- Co-operative banks

The commercial banking structure in India consists of

- Scheduled commercial banks
- Unscheduled bank

Scheduled commercial banks constitute those banks which have been included in the second schedule of Reserve Bank of India (RBI) Act, 1934. For the purpose of assessment of performance of banks, the RBI categorise them as public sector banks, old private sector banks, new private sector banks and foreign banks.

### The Commercial banking structure in India



#### Present Scenario

The present banking scenario provides a lot of opportunities as well as facing lot of challenges also. India is being fundamentally strong supported by concrete economic policies, decisions and implementations by the Indian Government. Today in India, the service sector is contributing half of the Indian GDP and the banking is most popular service sector in India. The significant role of banking industry is essential to speed up the social economic development. To improve major areas of banking sector, Government of India, RBI and Ministry of finance have made several notable efforts. Many of leading banks operating in market have made use of the changed rules and regulations such as CRR, interest rate, special offers to the customers such as to open account in Zero balance. In addition to this, now a days banks are entered in non-banking products such as insurance in which area there are tremendous opportunities.

#### Challenges faced by the banking sector

##### • Customer satisfaction

Today, in banking sector customers are more value oriented in their services because they have alternative choices in it. So that each and every bank have to take care about fulfilling customers satisfaction.

##### • To provide several personnel services

Today, it is demanded that banks are to provide several services for which they have to expand their service, social banking with financial possibilities, computerisation and innovative mechanization, better customer services, internal supervision and control, adequate profitability, strong organisation culture etc. Therefore banks must be able to provide complete personal service to the customers who comes with expectations.

##### • Competition

The nationalized banks and commercial banks have the competition from foreign and new private sector banks.

Competition in banking sector brings various challenges before the banks such as product positioning, innovative ideas and channels and new market trends. Banks are restricting their administrative folio by converting manpower into machine power. ie, banks are decreasing manual powers and getting maximum work done through machine power. Skilled and specialised manpower is to be utilised and result oriented targeted staff will be appointed.

##### • 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. The foreign banks operating in India, becomes a major challenge for nationalised and private sector banks. These banks are large in size, technically advanced and having presence in global market, which gives more and better options and services to Indian traders.

##### • 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 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. Foreign banks appear to have acted as technological innovators when competition increased, which added to the competitive pressure in the banking market. It was found in the study of Goyal and Joshi (2011) 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. 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.

### • Managing Technology

Developing or acquiring the right technology, deploying it optimally and then leveraging it to the maximum extent is essential to achieve and maintain high service and efficiency standards while remaining cost effective and delivering sustainable return to shareholders. Early adopters of technology acquire significant competitive advantages. Managing technology is therefore, a key challenge for the Indian Banking Sector.

### • 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, movements in NPAs, capital, shareholdings of the government, value of investment in India and abroad, the total investment made in the equity share, bonds, debentures, aggregate advances against shares and so on.

### Other Challenges

- Development of skill of bank personnel
- Customer awareness and satisfaction
- Changing needs of customers
- Lack of common technology standards for mobile banking
- Manpower planning etc.

### Opportunities

Where there are challenges, there must be opportunities. Following are the opportunities for the banking sector.

#### • Rural area customers

Contributing to 70% of the total population in India is a largely untapped market for banking sector. In all urban areas, banking services entered but only few big villages have the banks entered. So that the banks must reach in remaining all villages because majority of Indian still living in rural areas.

#### • Good customer services

Good customer services are the best brand ambassador for any bank for growing its business. Every engagement with customer is an opportunity to develop a customer faith in the bank. While increasing competition, customer services has become the backbone for judging the performance of banks.

#### • Internet Banking

It is clear that online finance will pick up and there will be increasing convergence in terms of product offerings, banking services, share trading, insurance, loans based on the data warehousing and data mining technologies. Anytime anywhere banking will become common and will have to upscale. Such upscaling could include banks launching separate internet banking services apart from traditional banking services.

#### • Offering various channels

Banks can offer so many channels to access their banking and other services such as ATM, Local branches, Telephone/Mobile banking, Video banking etc. to increase the banking business.

#### • Product Differentiation

Apart from traditional banking services, Indian Banks must adopt some product innovation so that they can compete in gamut of competition

#### • Expansion

Expansion of branch size in order to increase market share is another opportunity to combat competitors. Therefore Indian nationalised and commercial banks must spread their wings towards global markets as some of them have already done it.

### Conclusion

Indian banks are trust worthy brands in Indian market, therefore these banks must utilise their brand equity as it is a valuable asset for them. The paper discusses the various challenges and opportunities like transparency, growth in banking sector, global banking, managing technology etc. Banks are striving to combat the competition. The competition from global banks and technological innovation has compelled the banks to rethink their policies and strategies. Finally the banking sector will need to master a new business model by building management and customer services. Banks should contribute intensive efforts to render better services to their customer. Nationalized and commercial banks should overcome the challenges and to get advantage of opportunities in changing banking scenario.

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