

A CHALLENGE AND OPPORTUNITY FOR THE INDIAN BANKING INDUSTRY

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Abstract

Globalization offers the opportunity for growth of world economy through the opening up the borderless marketing opportunity as well as it increased the pressure on every sector where the banking is most affected among the all. However Indian banks have identified international banking is the key opportunity to expand their business. In the pace of much competitive pressure, the banking industry has to identify the strategy to meet the challenges and grab the opportunities. The paper attempt to explore the impact of globalization in the banking industry, some of the inherent challenges, opportunities to expand the operation and ways to overcome the challenges for sustain the business.

Key Words: *Globalization, Banking, Challenges and Opportunities.*

Introduction

Overview of Indian Banking Industry

The growth in the Indian Banking industry has been more qualitative than quantitative due to globalization and it is expected to remain the same in the coming years, the last decade has seen many positive developments in the Indian banking sector. But the projections made in the "India Vision 2020" prepared by the Planning Commission and the Draft 10th Plan, the report forecasts that the pace of expansion in the balance-sheets of banks is likely to decelerate. The banking industry has moved gradually from a regulated environment to a deregulated market economy as well as it increased the pressure on every sector where the banking is most affected among the all. The Indian Banking Industry can be categorized into non-scheduled banks and scheduled banks. Scheduled banks constitute of commercial banks and co-operative banks. There are about 67,000 branches of Scheduled banks and others all the private banks spread across India.

Current Scenario

As far as the present scenario is concerned the Banking industry in India is going through a transitional phase. The Public Sector Banks (PSBs), which are the base of the Banking sector in India account for more than 78 per cent of the total banking industry assets. Unfortunately they are burdened with excessive Non Performing assets (NPAs), massive manpower and lack of modern technology. On the other hand the Private Sector Banks are making tremendous progress. They are leaders in Internet banking, mobile banking, phone banking, ATMs. As far as foreign banks are concerned they are likely to succeed in the Indian Banking industry.

On the one hand, the PSBs, which are the mainstay of the Indian Banking system are in the process of shedding their flab in terms of excessive manpower, excessive non-Performing Assets (NPAs) and excessive governmental equity, while on the other hand the private sector banks are consolidating themselves through mergers and acquisitions. PSBs, which currently account for more than 78 percent of total banking industry assets are saddled with NPAs falling revenues from traditional sources, lack of modern technology and a massive workforce while the new private sector banks are forging ahead and rewriting the traditional banking business model by way of their sheer innovation and service. The PSBs are of course currently working out challenging strategies even as 20 percent of their massive employee strength has dwindled in the wake of the successful Voluntary Retirement Schemes (VRS) schemes.

The private players however cannot match the PSB's great reach, great size and access to low cost deposits. Therefore one of the means for them to combat the PSBs has been through the merger and acquisition (M&A) route. Over the last two years, the industry has witnessed several such instances. For instance, HDFC Bank's merger with Times Bank ICICI Bank's acquisition of ITC Classic, Anagram Finance and Bank of Madura. Centurion Bank, Indusind Bank, Bank of Punjab, Vysya Bank are said to be on the lookout. The UTI bank- Global Trust Bank merger however opened a Pandora's box and brought about the realization that all was not well in the functioning of many of the private sector banks. Private sector Banks have pioneered with globalised technology it helps them for internet banking, phone banking, anywhere banking, and mobile banking, debit cards, Automatic Teller Machines (ATMs) and combined various other services and integrated them into the mainstream banking arena, while the PSBs are still grappling with disgruntled employees in the aftermath of successful VRS schemes. Also, following India's commitment to the WTO agreement in respect of the services sector, foreign banks,

Challenges in globalized Banking Scenario

The changing economic environment has a significant impact on banks and thrifts as they struggle to effectively manage their interest rate spread in the face of low rates on loans, rate competition for deposits and the general market changes, industry trends and economic fluctuations. It has been a challenge for banks to effectively set their growth strategies with the recent economic market. A rising interest rate environment may seem to help financial institutions, but the effect of the changes on consumers and businesses is not predictable and the challenge remains for banks to grow and effectively manage the spread to generate a return to their shareholders.

The management of the banks' asset portfolios also remains a challenge in today's economic environment. Loans are a bank's primary asset category and when loan quality becomes suspect, the foundation of a bank is shaken to the core. While always an issue for banks, declining asset quality has become a big problem for financial institutions. There are several reasons for this, one of which is the lax attitude some banks have adopted because of the years of "good times." The potential for this is exacerbated by the reduction in the regulatory oversight of banks and in some cases depth of management. Problems are more likely to go undetected, resulting in a significant impact on the bank when they are recognized. In addition, banks, like any business, struggle to cut costs and have consequently eliminated certain expenses, such as adequate employee training programs.

Banks also face a host of other challenges such as aging ownership groups. Across the country, many banks' management teams and board of directors are aging. Banks also face ongoing pressure by shareholders, both public and private, to achieve earnings and growth projections. Regulators place added pressure on banks to manage the various categories of risk. Competing in the financial services industry has become tougher with the entrance of such players as insurance agencies, credit unions, check cashing services, and credit card companies.

Some of the home grown challenges are:

1. Globalised banking require new skills in sales & marketing,
2. Challenges in "virtual banking"
3. High level of non-performing assets
4. Competition from foreign banks will only intensify the interest rate of loans.
5. The demographic shifts resulting from changes in age profile and household income, consumers will increasingly demand enhanced institutional capabilities and service levels from banks.

6. Consolidation of players through mergers and acquisitions will be challenge for the individual players
7. Innovative customer service
8. Technological changes and cost of adaptation

Opportunities

1. Pension fund industry in India is expected to grow
2. Rural and semi-urban India is expected grow in insurance sector.
3. Indian Mutual Fund industry witnessed a growth for the last decade it may continue in future
4. Increasing number of millionaires in India is increasing the scope of Wealth Management Services
5. Bankable households in India are anticipated to grow at a CAGR of 28.10% during 2007-2011
6. Investment by banking sector in Information Technology is expected to increase
7. There is a huge Opportunity for merger or alliances with foreign entities to have a benefit of avoiding competition
8. There is a huge opportunities in microfinance.

Conclusion

However, there will be common themes across classes of banks, and also to exploit the opportunity and meet the challenges of globalised banking business world the PSBs need to fundamentally strengthen institutional skill levels especially in sales and marketing, service operations, risk management and the overall organizational performance ethic. The last, i.e., strengthening human capital will be the single biggest challenge. banks could reach the next level of their growth in the Indian banking sector by continuing to innovate and develop differentiated business models to profitably serve segments like the rural/low income and affluent/ HNI segments; actively adopting acquisitions as a means to grow and reaching the next level of performance in their service platforms. Attracting, developing and retaining more leadership capacity would be key to achieving this and would pretense the biggest challenge.

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