ISSN: 0975-833X

Available online at http://www.journalcra.com

International Journal of Current Research
Vol. 8, Issue, 08, pp.36412-36419, August, 2016

INTERNATIONAL JOURNAL OF CURRENT RESEARCH

RESEARCH ARTICLE

INDIAN BANKING INDUSTRY: CHALLENGES AND PROGRESS

[1]Dr. Shaik Abdul Majeeb Pasha and *,[2]Ato. Wondwossen Jerene Daare

[1]Professor in Finance, College of Business and Economics, Arba Minch University-Ethiopia
[2]Dean, College of Business and Economics, Arba Minch University, Arba Minch, Ethiopia

ARTICLE INFO

Article History:
Received 21st May, 2016
Received in revised form
28th June, 2016
Accepted 08th July, 2016
Published online 20th August, 2016

Key words:

Indian banking, Challenges, Opportunities, Financial products, Mergers.

ABSTRACT

Indian financial sector has been growing at a galloping pace, comparatively with other industries from the last three decades. At present, India is with above 150 public and private sector banks with more than 110000 branch network. Indian banking is currently going through a difficult period during this mergers and acquisitions era. However, the problems are not unique to India. Growth has also slowed down in many other Emerging Markets and Developing Economies (EMDEs). Present study motto of researchers' wants to finds out the progress, challenges, and opportunities of Indian banking and to know reasons behind them. Finally, based on empirical findings reasonable recommendation and conclusion has given.

Copyright©2016, Dr. Shaik Abdul Majeeb Pasha and Ato. Wondwossen Jerene Daare. *This is an open access article distributed under the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.*

Citation: Dr. Shaik Abdul Majeeb Pasha and Ato. Wondwossen Jerene Daare, 2016. "Indian banking industry: Challenges and progress", *International Journal of Current Research*, 8, (08), 36412-36419.

INTRODUCTION

Indian financial sector is growing at a galloping pace, comparatively with other industries in recent times. At present, India is Geographical area 7th in the world - widely dispersed terrain Population – 2nd in the world–1.2 billion and by nominal GDP – 10th largest economy in the world with 30 States and 6 Union Territories, 644 districts, 600,000 Villages-multilingual and multiethnic society with more than150 public and private sector branches, with 110,000 branch bank network. Indian economy is currently going through a difficult period. However, the problems are not unique to India. In recent times, growth has also slowed down in many other Emerging Markets and Developing Economies (EMDEs). The banking industry in India has undergone drastic financial and structural changes in the recent times as well as expanding number of services offering to the Indian and foreign society. India's banking system is passing through a period of rapid change, especially during this globalization, liberalization and privatization (GLP) era. While, on the one hand, there is the rapidly widening arc of the branch network, Global banking system and the urge to merge, on the other side of coin, there has been reorientation in the operational policies aimed not only at accelerating the pace of economic development but also to help translating the gains of economic growth into meaningful human advancement and fulfillment for the community with particular emphasis on the weaker. The opening of a large number of branches, introduction of innovative financial products and services especially in the rural and semi-urban areas are going on in the banking sector. Leading banks around the globe have reached out to become *universal banks*, offering multiple modern services like core banking services, securities underwriting, insurance product sales and underwriting, real estate services, and longer-term corporate equity funding, generating new sources of revenue along with traditional services.

By following CAMEL principles, so many bank performance measurements applying today like return on assets(ROA), return on equity capital(ROE), the net interest margin, operating efficiency ratios, the net non-interest margin, the ratio of equity capital to total assets as a measure of solvency risk to asses bank performance. The performance of banks today is heavily influenced by their asset concentration—that is, by the product lines they offer to the public. Before two years back, our Indian banks were getting good profits, but during this financial year(2015-16) only so many big banks are also facing more challenges due to increase in non performance of assets(NPAs).

***Corresponding author: Dr.Shaik Abdul Majeeb Pasha, CBE, AMU.**
Dean, College of Business and Economics, Arba Minch University, Arba Minch, Ethiopia.

Statement of the Problem

Banking institutions are playing vital role in most of financial systems around the world. They always play a leading role in creating money. As we know, banks create money both by offering transaction deposits and by granting loans (credit). However, more and more non-banking financial institutions are competing with banks in money and credit creation. Being a democratic country with lot of proclamations under various Acts, we found some gap in our Indian banking industry's progress compare with foreign countries banking growth, we are little bit behind them, and at the same time some challenges also coming in front of us. Anyhow, Indian economy is currently going through in a typical period. However, the problems are not unique to it. By analyzing and interpreting these progress, challenges researchers want to find a reasonable solution in Indian banking industry.

Objectives of the study

1. To find out various challenges faced by the Indian banking industry in this present complex global context;
2. To study the progress of banking sector in India, and to know the significant factors which are influencing the Indian banking industry; and
3. To suggest the recommendations to work better for further development of the Indian banking industry.

Scope of the Study

This study is not confined to only Indian context, but also global aspects are also taken into consideration. What challenges are facing by Indian banks internally and externally and what are the variables or factors showing their importance or impact on Indian banking industry.

Significance of the study

The Present study "Indian Banking Industry: Challenges and Progress" will be use full to all the bankers, researchers, society and policy makers those are want to know the challenges facing by the Indian banks.

Sources of Data

The nature of the present study is perspective and conceptual. The universe of this study is Indian banking sector. To fulfill the above objectives, secondary data is used, which is taken from the various Reports published by Reserve bank of India, Banking Regulation Act,1949, Central Statistical Organization, Economic Survey of India and various web support are etc., and also Primary data collected from banks officials and other concerned people in the form of discussion and opinions.

Limitations of the Study

Study of modern Indian banking industry challenges is like an ocean. So maximum data retrieved and observed from various books, journals, statistical reports of various governmental agencies, opinions of senior staff over a long period of time. Even though, researcher is not satisfied with collected data due to time limitation and other things.

Indian Banking Sector – Progress and its Challenges

Before liberalization, privatization, and globalization (LPG) concept come into picture our Indian banking system was moved in very slow growth position. Later, Indian government brought lot of financial reforms. This has given boosting to grow our banks at high level speed. Earlier, till the nineties, the insulated economy provided comforts to public sector banks in areas of liquidity management while in an administered interest regime the discretion of management being limited, the risk parameters in these spheres were hazy and not quantifiable. The public sector banks became burdened with unwelcome legacies; customer service faced casualty; need for computerization along with networking among the vast branch network was urgently felt. At the backdrop of all these, the first Narasimham Committee on Financial Sector Reforms put forward its recommendations. Indeed, these recommendations were given public sector banks a new life today. Contemporary to all these developments, the Indian Banking sector saw the advent of a new generation of banks – the private sector banks. The private banking in that context was viewed as a brand new approach as these banks were able to bypass the structural and other shortcomings of the public sector. A few of the new ones that were promoted by the institutions such as the IDBI and ICICI did establish themselves (although their size and scale of business operations varied) and survived the market upheavals of the 1990. Apart from other factors, the professional approach of some of the new generation private sector banks like Yes Bank helped them stay clear of the pitfalls associated with public sector banks. However, in less than a decade after the advent of these new generation banks and with the initiation of financial sector reforms, commercial banks (even successful ones) are being forced to change organizationally. These changes are deemed necessary in the light of the increased competition in the domestic, NBFCs and foreign banks also. Moreover, in view of increased stiff competition, the structure of Indian banking system is expected to undergo a transformation and the main drivers of which will be consolidation, convergence, and technology (Kamath, Kohli, Shenoy, Kumar, Nayak & Kuppuswamy, 2003). The changes in structure brought in the Indian banking system through consolidation. Apart from consolidation in the banking sector, banks are expected to grow out of their narrow focus on banking services to become broader focus as financial service providers – offering a variety of services under 'one-roof', thus they are following "***one-stop-shop approach***" to provide all types of services to various kinds of customers.

Indian Banking – The Future Ahead

India is well positioned to become the fourth-largest economy in the world by 2025 with a GDP growth rate of 7 - 8 % a year. This robust economic growth would be possible if the banking sector is able to adequately and efficiently meet the needs of a growing economy. Moreover, the Indian Economic Environment has witnessed path breaking reform measures initiated by the Government (Murty, 2001) since early 1990s. As the socio economic development of a country depends on

how strong the banking sector is and vice versa, reforms measures were also targeted towards the financial sector. In fact, the banking sector–the dominating segment of any Financial System – affects the economic performance of a country and there exist a causal link between the banking sector and the real sector (Yuncu, Akdeniz & Aydogan, 2008). The causal link is, however, quite significant. Thus, the Indian banking system too, has been acting as an important agent of economic growth and intermingles with different segment of the financial sector. Therefore, it can be anticipated that in the light of the present economic situation and its increased industrial financing requirements, the Indian banking system will further grow in size and complexity while acting as a change agent (Samal, 2001). However, as banks grow in size and complexity, now they have to work increasingly under competitive pressures. Furthermore, with economic reform initiatives undertaken by the Government since early 1990s and subsequent implementation of wide range of financial sector reforms, Indian banking has also undergone complete metamorphosis. All these have brought in a sea-change in the operating environment of the banks (Singh, 2001). Thus, all these factors are mounting pressures on the performance of banks and in their quest to remain competitive, Indian banks are now more concerned for enhanced profitability and they have become more accountable to their stakeholders.

Emerging Challenges before Indian Banking sector

Financial sector reforms and liberalization of prudential regulations or proclamations have thrown in a lot of opportunities for Indian bank to grow and diversify their areas of business operations. There is no doubt that deregulation has opened up new vistas for banks to augment revenues but it has entailed greater competition and consequently greater risks and a chain of challenges. These challenges emerged as a result of emergence of new banks, new financial institutions, new instruments and new opportunities in this modern business environment. Moreover, globalization has ushered in restructuring of the banking and financial sector through a series of mergers and amalgamations and eventually brought in convergence of different activities and businesses in the banking sector (Deshpandey, 2001). With globalization, newer technologies and techniques in areas like fund management and security creation has been introduced. Also innovative products which are tailor-made to meet the varied requirements of customers are introduced in the market to cater the needs of the customers in a better way. Thus, today, banks are subjected to cut-throat competition and in order to survive, Indian banks need to be proactive in meeting these emerging challenges. Moreover, competition has resulted in extending the frontiers of banking activities, which calls for understanding and upgradation of skills in various areas and more importantly in the area of risk management. Although the Indian banking industry is one of the best in Asia in terms of efficiency (Shen, Liao & Weyman-Jones, 2009), the industry has to go a long to compete with global banks. Therefore, the following are the areas on which banks need to focus for their sustenance:

Capital Adequacy Norms of Basel II and III

The Indian banking companies were required to ensure full implementation of Basel II guidelines – the revised capital adequacy norms mandated by the Bank for International Settlements (BIS) by March 31, 2009 (Chadrasekar, 2008) and with Basel II norms that came into force in 2009, maintaining adequate capital reserves have become a priority for banks. Basel II mandates Capital to Risk Weighted Assets Ratio (CRAR) of 8%. However, the RBI has stated that Indian banks must have a CRAR of minimum 9%, effective March 31, 2009. Further, the Government of India has stated that public sector banks must have a capital cushion with a CRAR of at least 12%, higher than the threshold of 9% prescribed by the RBI (Anand, 2009). Significantly, the level of capital ratio in the Indian banking system compares quite well with the banking system in many other countries (Leeladhar, 2008). Most of our Indian banks were fulfilled this Basel II norms in time only. Despite the fact that Indian banks appear well-capitalized with an overall CRAR at 13.5 per cent (at end-June 2013), the challenges in implementing Basel III cannot be underestimated. First, Basel III would significantly increase capital requirements for Indian banks. The credit needs to finance growth could go up over the years and, accordingly, the capital needs of the banking sector would be higher. Second, given the strong presence of public sector banks, the fiscal burden of Basel III cannot be overruled if majority shareholding by the government is to be maintained. The available broad estimates suggest that the full implementation of Basel III by end-March 2018 would require common equity of INR.`1.4-1.5 trillion on top of internal accruals, in addition to INR`2.65-2.75 trillion in the form of non-equity capital for public sector banks alone.

New Financial Products

As the Indian banks moving gradually towards universal banking and as they positioned themselves as financial service providers, banking business had been redefined (Kohli, 2001). Oke (2007) points out that in view of intense competition in the business environment, the banking sector emphasized on product innovations over service innovations. Thus, product innovation is of utmost importance as competition in the sector has increased tremendously and product boundaries have blurred. Moreover, the distinction between various players in the financial segment is also getting blurred and banks are facing stiff competition from foreign banks, financial institutions, mutual funds, NBFCs, provident funds and pension funds etc. Therefore, to stay ahead in the race, banks will have to leverage technology for innovative product development including developing sophisticated financial products (Ballabh, 2001). Interestingly the Indian banking market is seeing discontinuous growth driven by new products and services that include opportunities in credit cards, consumer finance and wealth management on the retail side, and in fee-based income and investment banking on the wholesale banking side (Balasubramanian, Kamal, Puri & Sengupta, 2005). And as customers are now insisting on products which suit their individual requirements, banks are forced to opt for product innovation in order to keep their precious customers. Moreover, given the demographic shifts resulting from changes in age profile and household income, Indian consumers will increasingly demand enhanced institutional capabilities and service level from banks. Recently, Indian Govt. priminister started new scheme for

opening of bank accounts at zero balance in 2015. Through this way 15,000,000 new accounts opened in banking sector. With this total number of accounts crossed by Indian customer is 170,000,000 mark. Thus, the challenge for Indian banks is on how to assess the needs of their clientele and offer customised products to meet their expectation.

Customer Relationship Management

Customer Relationship Marketing (CRM) is the latest buzzword and banks are using this tool to acquire new customers, to retain the old customers and to service the existing and new customers. Customer loyalty seems to be a thing of the past and banks as well as other organisations are offering many incentives to enhance customer loyalty. This is because customer loyalty results in positive behaviours which include an increase in repurchase intentions, an increase in repetition sales, an increase in cross sales, a decrease in price sensitivity, a decrease in costs, and an increase in positive word of mouth communications (Varela-Neira, 2010). As such this is one of the challenging areas that banks need to focus. There are two important aspects of CRM – one, that CRM does not view customers in totality and two, the devising of banking products (Velayudham, 2002). Moreover, as banking products are intangible, personal selling of products is a must. As regard to the second, once the need of a market segment is recognised, product differentiation becomes important. Thus, in short it implies that evolving products and then looking for customers may not give desired result; rather the products should be evolved based on customers' need and demand. Therefore, in view of the present situation, banks need to activate their hidden data warehouse to do a purposeful study into the needs and patterns of the customers, accordingly develop products to suit their needs. In this context, data mining has become an important tool for decision making by the bank management. Through data mining, the Executive Information System (EIS), Decision Support System (DSS) have become faster and more accurate (Shastri, 2001). Thus, banks need to be customer-centric in order to acquire and retain customers. And for this, a bank need to appoint Customer Relationship Managers, field-level sales force, help desk, call centers, interactive voice response systems, kiosks, interactive television, e-mail and SMS, MMS also.

Concentrate on Increasing Profit and Customer Orientation

In a competitive environment, banks are in a position to work on light margins and the focus should be on cost minimization. Resource mobilization should be guided by availability of opportunity for fund deployment in a profitable manner (Pai, 2001). Moreover, as customers are the source of business for banks, the activities and strategies of the banks should be customer-centric. Marketing should receive a major thrust and customised products should be developed to meet customers' expectations. Again liberalisation policy of the Government for the banking sector has given wide scope and opportunities. Introduction of ITeS services like EFT, NEFT, RTGS etc. have reduced administrative costs, increased efficiency, simplified book-keeping, and enhanced security for customer payments. Significantly, banks can make use of the ITeS infrastructure for introducing new payment/ cash management products. The focus should be to increase the avenues for income by providing various innovative and customized products to customers.

Enhancing Corporate Governance

Banks are special organisations because their managers have a fiduciary duty to (more risk averse) depositors as well as (more risk prone) shareholders and thus a solution to the 'principal-agent problem' aimed at maximising shareholder value is inappropriate (Mullineux, 2006). Therefore, the good Corporate Governance of banks requires regulation to balance the interests of depositors and taxpayers with those of the shareholders. Moreover, banks are important participants in the payment and settlement system and as such corporate governance is highly relevant for them. Corporate governance has become more relevant for banks since they not only accept and deploy large amount of uncollateralized public funds in fiduciary capacity but also leverage such funds through credit creation. For financial stability, banks need to have sound corporate governance not only in the level of the individual banks, but it is also a critical ingredient at the system level. Effective risk management systems determine the health of the financial system and its ability to survive economic shocks. Research shows that many risk management failures are due to breakdown in corporate governance which arises due to poor management of conflicts of interest, inadequate understanding of key banking risks and poor Board oversight of the mechanisms for risk management and internal audit. Therefore, it can be said that corporate governance is the foundation of effective risk managements in banks and thus the foundation for a sound financial system is needed at this momentum. Moreover, with privatisation move initiated by the Government in Indian economy, there is a gradual dilution in the Government's equity in public sector banks. However, privatisation and autonomy never comes free (Gupta, 2001). A sound corporate governance mechanism, involving transparency and accountability of operations, is central to survival in a competitive market. Therefore, banks have to necessarily reorient their systems, procedures and operations in consonance with this. Moreover, it should be noted that the hallmark of good Corporate governance at all times cannot be beyond honesty, values and ethics (Ghosh Ray, 2009).

Application of Information Technology in Service Delivery Process

The beginning of 1990s has witnessed a sea change in the way banking is done in India and technology has brought in this change in the functioning of the banks (Shastri, 2001). Till 1980s, banks had only one delivery channel which is the branch presence. However, technology has opened up options for various delivery channels. Technology aided products like ATMs, Point of Sale devices, Anywhere Banking, Smart cards, Internet Banking etc., have given the customer to choose his channel of getting catered to his requirements. Apart from customers' privilege, studies show that the profitability of banks increases when services are provided through e-channels like ATMs (Kondo, 2010). However, the implementation and functioning of e-channels or ITeS in the banking sector seem

to be relatively smooth in the developed economies (Guraau, 2002) but in developing or transition economies, it may not be so. Thus, the challenge before Indian banks is how to go for 'convergence' of all the delivery channels so as to provide anything, anywhere and anytime through any mode. Along with the change in the way of functioning of the banks, an important issue has started cropping up and it is going to pose certain problems in the near future especially for the public sector banks. The issue is - the extent to which banks would be able to use technology in its service delivery process. Significantly, the new generation banks are backed by Information Technology. Unlike public sector banks, they are yet to acquire banking experience but they are technologically sound and as a result they are in a better position to offer techno-driven services to their customers. The private sector banks as well as foreign banks have embraced technology right from the inception of their operations and therefore, they have adapted themselves to the changes in the technology easily. Since last decade and has gained momentum in last few years.

On the other hand, the middle and top level staffs of public sector banks have vast and rich experience but they may not have sufficient knowledge in the area of IT or may not be familiar with technological tools that can be used in the service delivery process. As technology has become indispensable in banking operations, the challenge for the banks is on how effectively they are able to use technology in banking operations.

Risk-based Business Segmentation and Use of Technology

In the present day situation, business segmentation based on risk would become necessary for sustenance. There are certain areas of banking business like investment banking, venture capital financing, which carry high risk and for such areas, better techniques and skills and external advice from specialised agencies may be necessary and even banks may also have to set up their own R & D to have independent advice (Pai, 2001). On the other hand, there are business areas that involve low risk and for decision making in such areas, programmed decision making techniques based on computer technology need to be evolved. Thus, risk based business segmentation would help a bank to strengthen their position in the market. In this area so many software are applying by bankers before making investment. That is why in recent times Indian banks are physical as well as virtual expansion of banking through mobile banking, internet banking, tele-banking, bio-metric and mobile ATMs are introducing to provide more facilities to customers.

Development of Knowledge and Skills of its Human Resources

For any service organization, Human Resource Development(HRD) is the most important need and banks are no exceptions. To meet the challenges of a fast growing knowledge economy, the trust needs to be on HRD for which the existing training systems of banks need to be revamped. This is felt necessary in order to keep pace with the fast-changing banking environment in India and abroad.

Moreover, David C. McClelland attributed India's slow economic development to the lack of people with the need for achievement (Kunnanatt, 2008). At present moment there is need to establish timely training facilities to employees or at the time of selection new employees, banks are required to allow only high multi-talented people.

Synergy out of Mergers and Acquisitions

It has been seen that public sector banks have inherent disadvantages like limited IT infrastructure, excess manpower, huge brick and mortar branch network etc. (Chopra, 2001). With these disadvantages, they need to compete with new generation private sector banks as well as foreign banks. As a result of their inherent disadvantages, they suffer from competitive disadvantage and unless they gear themselves to cope up with this challenges and competition, they may have to lose large share of their remaining clientele. Therefore, banks, especially public sector banks need to opt for mergers and acquisitions with compatible entities to acquire synergy. In this connection SBI is going to merge with its subsidiaries to become more strong. Moreover, it is significant to note that mergers and acquisitions will result in creation of large balance sheets and broadening of the customer base and thereby lending those banks a stamp of universality. Therefore, in the present day context, small is no more necessarily considered to be beautiful (Kamesam, 2001).

Risk Management

In emerging markets, risk management, has become a greater concern with the modernisation of banking sector and financial markets. This is due to the new risks that institutions face with greater exposure to the global banking sector as well as under the new payments systems which demand greater efficiency with quicker transactions, lower levels of fraud and transaction errors (Clacher et al., 2006). Thus, Risk management has become an important area of focus of bank management. Under BASEL I, banks were focused on credit risk and market risk and their risk management strategies were focused on managing these risks individually in isolation. However, BASEL II has brought into focus a large number of risks which banks need to tackle. In fact, BASEL II has highlighted the inter-linkages of a large number of risks like credit risk, liquidity risk, market risk, operational risk etc., with a view to achieve a more comprehensive risk management framework. Therefore, implementation of BASEL II is being increasingly seen as a medium through which banks constantly endeavor to upgrade the risk management systems. Moreover, BASEL II underlines the need for enterprise-wide risk management system. Therefore, the challenge for banks is on how to opt for risk integration across the entity and for this banks are required to allocate significant resources. In the near future, one more responsibility has to be fulfilled by the Indian banks has to follow BASEL III norms also.

Threat from Islamic Banking

Islamic finance is growing at a galloping pace, with its estimated 15% to 20% annual growth rate considerably outstripping that seen in the conventional banking industry. At present, its operations are going on in more than 56 countries of the world. Global Islamic banking assets with commercial

banks are on course to exceed $3.4 trillion by 2018, fuelled by growing economic activity in core Islamic finance markets. World renowned multinational banks are opened their non-interest banking divisions along with conventional banking activities due to so many advantages, particularly to tap the markets of Middle- East and Euro-Asia. However, there is a need to think and open this non-interest banking divisions along with traditional bank branches in India also to catch customers who are against to take and pay interest on their amounts. Otherwise, these people may away from banking transactions.

Need to change branch environment

Banks, in order to reduce its administrative costs, need to rationalize the branch networking by consolidating the number of branches within a local area into a single profit centre without affecting customer service. Moreover, at the industry level, strategic alliances and mergers of even healthy banks would also become necessary (Pai, 2001). Another challenge of the government policy is to maintain or open a branch for every below 2000 customer community, as it is one of the objectives. At present all over India we could find more than 110,000 branches (including RRBs) in banking industry. At present on average Indian banks are providing services to customers' one branch for 12,000. So there is a need to improve branch net work more along with providing more ATM services.

Need for Greater Prudence

Future banking has to be based on prudence. New bloods with new skills are to be injected to face the coming challenges. Business will have to be organised on more commercial lines with focus on income and profit centers and on Information Technology. Prudent policies for provisioning have to be adopted apart from norms/proclamations laid down by the RBI for investments and credit.

Asset Liability Management (ALM)

All commercial banks should give utmost importance to Asset Liability Management from the view point of liquidity as well as interest rate sensitivity. In fact, an effective Asset Liability Management technique aims to manage the volume, mix, maturity, rate sensitivity, quality and liquidity of assets and liabilities as a whole so as to attain a predetermined acceptable risk/ reward ratio (Kumar et al., 2005). Thus, the purpose of ALM is to enhance the asset quality; quantify risks associated with the assets and liabilities and further manage them. It is deemed necessary because asset-liability mismatches expose the banks to various types of risks i.e., risks of illiquidity and insolvency; risks arising from globalisation and deregulation.

In the context of the Indian economy getting integrated with that of international economy and the banking system getting exposed to more and more doses of transparency, Asset Liability Management Committee (ALCO) of the individual banks should practically customise and parameterise their approaches and actions and strike a balance between risk and reward (Murthy, 2001).

Brand Building and Management

It takes years to build a brand. A brand is a name, term, sign, symbol or design or a combination of these intended to identify the goods or services of one seller or a group of sellers and to differentiate them from those of competitors (Kotler & Armstrong, 1997). Brand building has become a major issue in product strategy. As banks offer a variety of services under an umbrella brand, building a brand and managing it has become a challenge. Banks should focus on building a powerful brand that has high brand equity. This is because a brand with high brand equity implies that they should have higher brand loyalty, name awareness, perceived quality and strong brand associations. Therefore, huge investment of resources – both monetary and time – is required to build a brand and for its management.

Transparency

The Reserve Bank of India has made it mandatory for all commercial banks to disclose additional information on maturity pattern of loans and advances, investment securities, deposits and borrowings, foreign currency, assets and liabilities, movements in NPAs and lending to sensitive sectors in the balance sheet. Moreover, our country has also made considerable progress in harmonizing domestic accounting standards and the legal system with international standards, enhancing financial sector transparency by complying with the special data dissemination standards and subjecting the financial system to external assessment under the Fund-Bank Financial Sector Assessment Program (Neumann & Turner, 2005). Thus, all vital information which was hitherto not disclosed by banks earlier is now required to be disclosed, thereby putting pressure on banks to be transparent and more accountable to their stakeholders.

Increasing Shareholders' net worth

In a knowledge economy, shareholders of banks are increasingly taking interest in the affairs of the banks. The Committee on Banking Sector Reforms (BSR), chaired by M. Narasimham, recommended that the minimum shareholding by Government/ Reserve Bank of India in the equity of nationalised banks and the State Bank of India be brought down from 51 per cent to 33 per cent (Mazumdar, 2002). Therefore, the participation of shareholders of public sector banks which was limited till today. The shareholders expect to earn higher dividend or optimize appreciation of the scrip at the stock market (Singh, 2001). Therefore, one of the challenges banks face is how to meet the expectations of the shareholders and enhance the value of the bank. Therefore, banks have to devise ways and means as to how to optimise the shareholders value in each and every business activity they undertake.

Financial Inclusion

Banks' nationalization in India marked a paradigm shift in the focus of banking as Government, through nationalization, intended to shift the focus of banks from class banking to mass banking. However, there are still many states in India where a large percentage of population are yet to be brought under the

ambit of banking. Therefore, in the light of Government policies, one of the challenges before Indian banks is to redesign their business strategies so as to incorporate specific plans to promote financial inclusion of low income group by treating it as a business opportunity as well as a corporate social responsibility. Financial Inclusion is the process of *ensuring access* to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an *affordable cost* in a *fair and transparent manner* by mainstream institutional players In January 2006, banks were permitted to utilise the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions and other civil society organizations as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent (BC) models. The BC model allows banks to do ‘cash in - cash out’ transactions at the location of the BC and allows branchless banking (Leeladhar, 2006). At present, it may appear that taking banking to the unprivileged and unbanked sections and areas may not be profitable but gradually it can emerge as commercial profitable business. At present in rural areas Indian banks are having 110,000 branches and deposits crossed around $ 1.1 trillion and bank credit $780 billion at end of March, 2013.

Position at Global Markets:

Through the study researchers found, Indian banks are not in a position occupy at least one rank out of top ten banks in the world. We are top second in population wise in the world, where as our neighbor country China’s four banks were there in top 10 banks of the world. Of course, due to so many reasons our bankers are not in a position occupy a good place in global banking pace in terms of total turnover, deposits, loans, opening of off-shore branches, derivative markets(including foreign exchange business).

Improvement in foreign exchange reserves and need to maintain stable Indian Rupee

During 1975 Indian Rs. 9.40 was equal to one US dollar, where as today its value depreciated to Rs.67.4. This was happened due to so many reasons, whereas amount wise we have ample amount of forex reserve i.e. USD.361 billion compare with USA. It is having only USD 118 billion only, but whereas compare with china(USD 3.22 trillion), India is having less forex reserves. Hence, there is a need to find the reasons and better to take some remedial measures.

Recommendations

As per the above points, we can say that the biggest challenge for banking industry is to serve the mass market of India. Banking companies should shift their focus from product to customer. The better we understand our customers, the more successful we will meet their needs. In order to mitigate above mentioned challenges Indian banks must cut their cost of their services. Another aspect to encounter the challenges is product differentiation. Apart from traditional banking services, Indian banks must adopt some product innovation so that they can compete in gamut of competition. Technology up gradation is an inevitable aspect to face challenges. The level of consumer awareness is significantly higher as compared to previous years. There is a need to focus more and more on financial literacy to our society by the banking sector. Now-a-days they need internet banking; mobile banking and ATM services should be increased more. Expansion of branch size in order to increase market share is another tool to combat competitors. Therefore, Indian nationalized and private sector banks must spread their wings towards global markets as some of them have already done it. Indian banks are trustworthy brands in Indian market and there is need to focus this brand to international markets also; therefore, these banks must utilize their brand equity as it is a valuable asset for them.

Conclusion

From the above study, researchers comes to an end that our Indian banking system in the days to come will be a challenging one, which will be marked by high expectations of customers, who are well informed and possess the technical knowledge to conduct banking transaction from home or office or while on move. Although IT plays an important role in banking business, yet personalised service will continue to have relevance in Indian banking – where a large proportion of the country’s population is still illiterate. To sum up, it can be said that with increased competition, Indian banks face the challenge of sustenance and for these they need to develop proactive strategies with focus on product innovation, off-balance sheet activities to increase their income from non-core activity, efficiency in service delivery process, effective risk management etc. and more importantly on customer satisfaction through tailor-made product packages. In fact it should be seen by Indian banks as an opportunity to enter global financial intermediation and provision of financial services (Patel, 1997). As the economic importance of (financial) services increases in terms of (global) value added, international banking operations should be viewed as a (potentially) lucrative profit opportunity by Indian banks. Indian economy is currently going through a difficult period due to scams, corruption, black money, high inflation and other problems. However, the problems are not unique to India. Growth has also slowed down in many other EMDEs. What is important at this stage is to preserve India’s growth potential by arresting the downtrend and maintaining stable macroeconomic conditions. For this, the focus need to be on implementation of measures aimed at removing structural constraints so that production and investment activity could gather momentum. This is important, because spillovers from global growth and financial market conditions can only account for a part of the slowdown.

REFERENCES

Basu 1991. “Commercial Banking in the Planned Economy of India”, Mittal Publications, New Delhi, India.

Bedi, Ayyar and Shenoy 1984. “Theory and Practice of Banking”, Jeevandeep Prakashan., India.

Benson and Kunju 2008. “Commercial Banks in India: Growth, Challenges and Strategies”, New Century Publication, New Deli.

Chaitanya V Krishna 2004. "Causes of Non-Performing Assets in Public Sector Banks", *Economic Research*, Vol.17(1), Pp.16-30.

Choudhary and Ahmad 1982. "Problems of Marketing of Banks Service in Rural Areas", Bank Prakrama, March-June.

Das Abhiman 2002. "Risk and Productivity Change of Public Sector Banks", *Economic and Political weekly*, Vol.37 (5), Pp.437-448.

Goyal and Joshi 2011. "Mergers in Banking Industry of India: Some Emerging Issues", *Asian Journal of Business and Management Sciences*, Vil. 1(2), Pp. 157-165.

http://www.rbi.org.in/financialeducation/FinancialLiteracyGuide.aspx. (accessed on 20/05/2016)

McKinsey & Company's Report on 'India Banking 2010 – towards a high-performing sector', October, 2005.

Poposka, Klimentiana; Mark D. Vaughan; and Timothy J. Yeager. 2004. "The Two Faces of Banking: Traditional Loans and Deposits vs. Complex Brokerage and Derivative Sercuties," The Regional Economist, Federal Reserve Bank of St. Louis, October, pp. 10-11.

Report of the Narasimham Committee on Banking Sector Reforms, 1998.

Report on Trend & Progress of Banking in India 2010-11, Reserve Bank of India. (Accessed on 20-02-2014).

Santomero, Anthony M. 2004. "Banking in the 21st Century," business Review, Federal Bank of Philadelphia, Third Quarter, pp. 1-4.

Strahan, Philip E. 2006. "Bank Diversification, Economic Diversification?" FRBSF Economic Letter, Federal Reserve Bank of San Francisco, No.2006-10, pp.1-3.

Swamy 2011. "Deregulation and Emerging Changes in Indian Banking", Bank Quest, Vol.729 Pp.3-22.

Wikipedia of so many areas accessed on 01/06/2016.

Yom, Chiwon. 2005. "Limited-Purpose Banks: Their Specialties, Performance, and Prospects," FDIC Banking Review, Vol.17, No.1. Federal Deposit Insurance Corporation, pp. 19-36.

****