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Reformed Indian Banking System and Its Way Ahead

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Abstract: The history of Indian banking industry is very old. The intervention of machine and technology has come into place for the last one or two decades. That's why for many years, the approach of Indian banking system was traditional in nature. But it had certain drawbacks. So, RBI has introduced certain kind of reforms in the banking system in order to remove the bottlenecks and to make the process hassle free. The main objective of this paper is to understand various reforms introduced in Indian banking industry and discuss how it helped to create opportunities and find solutions for the challenges, faced by the banking industry in India.

Keywords: ATM, IFRS, BASEL III, Banking reforms

I. INTRODUCTION

Indian banking industry has become much organized and regulated after the banking reforms. The technological advancements and liberalization of market policies has provided pace to all the players of banking industry. The present face of banking does not contain long waiting lines for customers for transactions constrained by banking hours. The banking industry and customers both have accustomed reasonably with each other resulting comfortable operations for each other. The other side includes challenges like implementation of capital Adequacy Norms, IFRS, BASEL III norms, etc. The efforts involved in the implementation would definitely affect the profitability factor. The industry focused on each and every aspect of the banking operations including Risk diversification, Asset liability management, Customer relationship improvisation, Diversification of revenue recourses; responding effectively to Changing Global Market. Research works of G S Suresh Chandra, C Rajendran, R N Anantraman (2003), Pooja Mangi, U. Lenka, D. Suar, PKJ Mohapatra (2009), J. Sethuraman, SC Bihari, D R Joshi (2012), Dr. R M Rather (2013) have also covered some issues relating to assessment and comparison of Indian Banking Industry. Challenges like lFRS (International Financial Reporting System) would need the banking industry to upgrade infrastructure including information technology and human resources as well. These up-gradations are forcing industry to bear additional costs of implementation, maintain higher rate of liquidity, also affecting the operational efficiency of the banks. The reforms introduced by RBI are proved as efficiency and profitability booster for the banks but the complex structure of our banking system including players Public Sector Undertakings, Private Banks, Foreign Banks, Cooperative Banks, and Regional Rural Banks has expressed various difficulties while implementing the reforms. Healthy challenges are continuously making market more competitive and contributing innovation of various banking new products resulting improved service and profit for banks.

II. REVIEW OF LITERATURE

G.S. Popli, Chintan Vadgama (2014) has discussed various dimensions of Indian banking. In their work "New Face of Indian Banking industry- Emerging Challenges & Potential" it is explained how with the proliferation of Internet Banking transactions have become much more convenient and face of the banking has changed.
Arora (2003) explained the magnitude of bank transformation. Technology has played an important role in development of new products and services which are facilitating transactions in the banking sector.
Sinha Pankaj & Gupta Sushant (2011) studied the "Before and After" effects of Merger and Acquisitions (M&As) on banking firms and it was found that it had positive effect on their profitability. The parameters of study were like- Earnings before Interest and Tax (EBIT), Profit margin, Current Ratio and Cost Efficiency etc.
Gopal, K.S. (1997) stated about the quality of services render by any banking institution could often be the only important factor which can shift loyalties and business to other banks for customers.
Sandhu (2003) analyzed the impact of Information Technological advancements and particularly e-delivery channels on the performance of Indian banking industry. The study also revealed that ATMs are the major e-delivery channels, which are used mostly in the metropolitan and urban cities. It was further concluded that the banks, which are operating through E-delivery channels, are considered better service provider.
Sanyal and Shankar (2008) analyzed and further compared the productivity differences that existed pre and post

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reforms and results shows that the productivity gaps between Indian private banks, public and foreign banks has dramatically increased due to faster productivity growth by Indian private banks. Gaurav Sharda, Namratha Swamy, Charan Singh (2014) explored that Foreign banks have actually helped in bettering the technology used in the Indian banking sector. The first ATM in India was brought up by HSBC and from then on foreign banks have contributed to the latest banking practices helping them become more efficient and improvising working styles.

III. RESEARCH METHODOLOGY AND OBJECTIVES

The present study is based on the secondary data collected from various National and International Journals, Publications, Occasional papers, and published data from various issues of RBI and different Public sector banks. Various studies on this subject have also been referred in this study. The main objectives of the present study are to study and understand various reforms introduced in Indian banking industry and discuss the various challenges and opportunities confronted by Indian banking industry in the last decade.

IV. REFORMS IN INDIAN BANKING INDUSTRY

Narasimham Committee recommendations are regarded as the foundation for the banking reforms initiated in 1991. It clearly proposed the need to increase the sovereignty of the banks and making the regulations comparatively more liberal to facilitate banking organizations. The liberalization of stock market is also credited to the advice of the committee. The reforms can be categorized in two phases. First phase starting from 1991 to 1997 and Second phase from 1998 onwards till now. In the first phase the Narasimham Committee I, recommendations focused autonomy of banking institutions through liberalizations and flexibility while Narasimham Committee lI stressed strengthening the structure of banking institutions through standardization and technological advancements.

V. TECHNOLOGICAL ADVANCEMENTS AND INDIAN BANKING INDUSTRY

The revolutionizing in technology has brought a paradigm shift in shaping up Indian Banking Industry. The technology has facilitated customers to transact without the constraints of time and geography. At present time, almost all the branches are fully computerized and mostly are offering core banking solutions with interconnected banking transactions. New banking applications are also continuously developing. The shift of customers from traditional banking to E-banking has downsized time and cost of banking operations. Facilities of Smart cards, ATM machine, Mobile and Internet banking have immensely contributed in improvisation of banking efficiency and prosperity. In India, majority of middle income class, bank customers have a habit of withdrawing small amounts of money from the ATM to check and control their spending tendencies but often end up with a high frequency of withdrawals. India has a total of 3 lakhs ATMs across the country as of March 2020 but frequent withdrawal of money from ATMs has already become expensive from November, 2014 as the RBI imposed a limit of 3 transactions per month from ATMs of other banks and 5 from the same bank in six metropolitan cities. Capping the charges for ATM usage may not be in favour of customers but it can be justified by considering high expenses for managing ATMs across the country.

VI. EMERGING CHALLENGES AND OPPORTUNITIES

In the present scenario, maintaining the fast rate of growing is the main challenge faced by Indian Banking Industry. Continuing the acceleration of economic growth and maintaining financial health as accordance to the current standards is a daunting job for institutions. The vast opportunities also lie in facing these challenges successfully. Stiff competition is a challenge but this opens a plethora of opportunities for trapping unutilized segments. The ways of financial inclusion and government policies like PM JAN DHAN YOJNA (It is a National Mission to ensure access to financial services, namely, Banking/ Savings & Deposit Accounts, remittance,Credit, Insurance, Pension in an affordable manner) can prove helpful for banks to widen their area of operation, attract and enroll more customer base and increase turnover. It has so far managed to bring over Rs 8,000 crores into the formal banking system. Latest data collated by the finance ministry show that by November 3, 6.98 Crores bank accounts had been opened across the country, with Rs 5300 crores parked in them. Increasing globalised transactions are making payment clearing more complex, can be considered as an invitation to global banking as it may help in expanding the Indian banks to global customers and providing services to the world. The increase in non-performing assets has paved the path of asset liability management. After the 2008 economic crisis, the up-gradation of norms from Basel II to Basel III was required

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very badly to strengthen the system. The guidelines of Basel Ill are aimed to make banking activities more capital intensive. The norms focus on the four banking parameters viz Leverage, Liquidity, Capital and Funding.

VII. CONCLUDING REMARKS

After independence, Indian banking industry was also restructured. After a long time from freedom of country, need of financial freedom was felt. It came for the industry in form of reforms. The continuous process of improvement in structure and operations enabled the Indian banking industry to grow at a steady pace but the most important issue is sustaining that pace with the process of up-gradation for global norms. Indian Banks are required to renovate efforts to expand their scope through financial inclusion and use practical approaches to achieve the ultimate objective of profit and growth. The issues faced by Indian banking industry are like Increasing Non-Performing Assets, Implementation of Global Norms, Increasing Competitors, Changing Technology, Liquidity Requirements, Merger and Acquisitions, HR related issues like: VRs, Compensation, Training and Education, etc. These points of concerns can be credited for major transformation of Indian banking Industry: Consolidation of Activities, Globalization of Banking Operations, Rapid Technological Changes and Increasing Products in Portfolio. In this changing environment banking can be made efficient only when it will provide customer an optimum blend of technology and traditional services.

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