

## Modern Trends in Indian Banking Sector

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### Abstract

The banking sector plays a vital role in the development of one country's economy. The growth of banking sector depends upon the services provided by them to the customers in various aspects. The growing trend of banking services is found significant after the new economic reforms in India. Today, India has a fairly well developed banking system with different classes of banks – public sector banks, foreign banks, private sector banks – both old and new generation, regional rural banks and co-operative banks with the Reserve Bank of India as the fountain Head of the system. Nowadays banking sector acts as a backbone of Indian economy which reflects as a supporter during the period of boom and recession. From 1991 various trends and developments in banking sector are credited. It also reflects the various reforms were caused to improve their services to satisfy the customers.

**KEYWORDS:** Banking sector, recent trends and developments etc.

### Introduction

The banking system in India is significantly different from other Asian nations because of the country's unique geographic, social, and economic characteristics. India has a large population and land size, a diverse culture, and extreme disparities in income, which are marked among its regions. There are high levels of illiteracy among a large percentage of its population but, at the same time, the country has a large reservoir of managerial and technologically advanced talents. Between about 30 and 35 percent of the population resides in metro and urban cities and the rest is spread in several semi-urban and rural centers. The country's economic policy framework combines socialistic and capitalistic features with a heavy bias towards public sector investment. India has followed the path of growth led exports rather than the "export led growth" of other Asian economies, with emphasis on self-reliance through import substitution. These features are reflected in the structure, size, and diversity of the country's banking and financial sector. The banking system has had to serve the goals of economic policies enunciated in successive five year development plans, particularly concerning equitable income distribution, balanced regional economic growth, and the reduction and elimination of private sector monopolies in trade and industry. In order for the banking industry to serve as an instrument of state policy, it was subjected to various nationalization schemes in different phases (1955, 1969, and 1980). As a result, banking remained internationally isolated (few Indian banks had presence abroad in international financial centers) because of preoccupations with domestic priorities, especially massive branch expansion and attracting more people to the system. Moreover, the sector has been assigned the role of providing support to other economic sectors such as agriculture, small-scale industries, exports, and banking activities in the developed commercial centers (i.e., metro, urban, and a limited number of semi-urban centers). The banking system's international

isolation was also due to strict branch licensing controls on foreign banks already operating in the country as well as entry restrictions facing new foreign banks. A criterion of reciprocity is required for any Indian bank to open an office abroad. These features have left the Indian banking sector with weaknesses and strengths. A big challenge facing Indian banks is how, under the current ownership structure, to attain operational efficiency suitable for modern financial intermediation. On the other hand, it has been relatively easy for the public sector banks to recapitalize, given the increases in nonperforming assets (NPAs), as their Government dominated ownership structure has reduced the conflicts of interest that private banks would face.

### **Objectives of study**

1. To explain the recent trends and developments in banking sector
2. To analyze the technological developments in Indian banking system
3. To study the opportunities and threads for the national and commercial banks in changing banking scenario.

### **Limitation of the study**

1. The time limit given to the Researcher is too little. So there is no or only less chance is there to collect the data
2. Because of time factor, only secondary data is used by the Researcher.

### **Review of Literature**

#### **ROL 1:**

Ratinder (2011) studied BPR in State Bank of Patiala. In India, the changing dynamics of Indian economy have brought many reforms in financial sectors especially in banking and insurance sector. To meet new competitive challenges due to technology induction in banks and change in the customers' perspective forced organizations began to reconsider about their ways of doing business operations. Consolidations, amalgamations, pressures to reduce operating costs stressed banking community to adopt tools like BPR in order to bring strategic benefits to organizations. State Bank of Patiala (SBOP) has initiated BPR initiatives on the lines and under the umbrella of State Bank of India (SBI). The study attempts to determine whether there is an improvement in the competitive measures of cost management, customer service, quality and productivity of bank under study. In India, no such study on BPR in banking specifically with reference to State Bank of Patiala has been found so far. Hence the, present study contributes to the research in banking with regard to BPR.

## **ROL 2**

Datta and Kundu (2011) discussed e-banking initiatives in Indian public sector banks (PSBs) which can be considered as a successful case of BPR implementation. An attempt has been made to study e-banking solutions adopted by Indian PSBs and to evaluate their performance in improving the level of customer satisfaction and the business performance of the PSBs. The study is based on secondary data on selected Indian public and private sector banks. The research shows that there is a growth in the usage of ATMs and in the volume of electronic funds transfer, which reflects that customers prefer electronic delivery channel more than traditional branch banking. The growth of productivity indicators of reengineered banking process is higher than that of the partially computerized banks and banks following traditional mode of operation. This research work attempts to assert that information technology (IT) application has a prospective future in India.

## **ROL 3**

Malarvizhi (2011) discussed about modern banking as a major invention that has changed the business of banking. Banks all over the world are reorienting their strategies towards new opportunities offered by modern banking. The recent trend shows that most 'brick and mortar' banks are shifting from a 'productcentric' model as they develop their new modern-banking capabilities. With this background, an attempt was made with the objectives, to present an overview of e-banking services offered by both public and private sector banks in Coimbatore city; to examine the socio-economic profile of e-banking user; to study the extent awareness and the usage of modern-banking services and to ascertain customer's satisfaction about various modern-banking services. The data was collected with the help of a well-structured and pre-tested interview schedule, administered to 100 e-banking users from November 2008 to January 2009. The data collected was tabulated and analyzed by using simple percentage, Chi-square test and Garrett ranking technique. From the findings of the study, it was revealed that customers are satisfied with the services provided by the public sector banks than the private sector banks. The study suggests that, Customers have to be educated in the use of new technology. On the whole, e-banking increases operational efficiencies and reduces costs, besides giving a platform for offering valued added services to the customer, thereby fulfilling all the essential prerequisites for a flourishing banking industry. In a nutshell, to meet the emerging challenges banks have to undertake a series of changes in original, structure, functions, practices and marketing to popularize e-banking.

## **ROL 4**

Bhattacharjee (2011) discussed that due to adoption of privatization and globalization policies, the nationalized commercial banks of India come under pressure in their business. One of the reasons is the presence of private-banking companies in this endeavor. Maintaining a good relationship with the customers is the primary functions of the banking business and to increase the profitability of the banking unit, it is necessary to lay emphasis on the business, which is located in rural, and semi urban areas, in

particular. So, the banking units have to satisfy the customer of semi urban areas along with the customers of urban and metropolitan cities. Keeping in mind the above fact, the present study has been undertaken to examine whether the customers of semi urban areas are satisfied with the banking services especially in the modern era. The study includes 60 customers of Barpeta district of Assam, a semi urban area who is the customer of different nationalized commercial banks of India. The data are classified and interpreted with the help of tabulation and graphs. The result shows that the customers are not satisfied with the banking services at all, and especially with the ATM services. Therefore, awareness programs should be conducted periodically regarding the use of other e-technology devices to make smooth and prompt business transaction. Moreover, the top management of banking unit to ensure better quality services should necessarily adopt some remedial measures.

## **ROL 5**

Uppal (2010) studied the extent of mobile-banking in Indian banking industry during 2000-2007. The study concludes that among all e-channels, ATM is the most effective while mobile-banking does not hold a strong position in public and old private sector but in new private sector banks and foreign banks m banking is good enough with nearly 50 percentage branches providing m-banking services. M-banking customers are also the highest in e-banks, which have positive impact on net profits and business per employee of these banks. Among all, foreign banks are on the top position followed by new private sector banks in providing m-banking services and their efficiency is much higher as compared to other groups. The study also suggests some strategies to improve m-banking services.

## **Methodology of study**

This study is based on the analysis of the changing banking scenario in the India with the help of secondary data collection.

## **Secondary data**

The secondary sources of data are banking books, annual reports of RBI, internet (websites) and research papers etc.

## **Challenges**

### **1) Customer Satisfaction**

Today in 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 fulfill of our customers satisfaction.

### **2) To provide several personnel services**

The preset times demanded that banks are to provide several services for which they have to expand in service, social banking with financial possibilities, selective up gradation, computerization and innovative mechanization, better customer services, effective managerial culture, internal supervision and control, adequate profitability, strong organization culture etc. Therefore banks must be able to provide complete personal service to the customers who come with expectations.

### **3) Nonperforming assets (N.P.A)**

Nonperforming assets are another challenge to the banking sector. Vehicle loans and unsecured loans increase N.P.A. which terms 50% of banks retail portfolio was also hit due to upward movement in interest rates, restrictions on collection practices and soaring real estate prices. So that every bank has to take care about regular repayment of loans.

### **4) 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, new market trends, cross selling's ad at managerial and organizational part this system needs to be managed, assets and contain risk. Banks are restricting their administrative folio by converting manpower into machine power i.e. banks are decreasing manual powers and getting maximum work done through machine power. Skilled and specialized man power is to be utilized and result oriented targeted staff will be appointed.

### **5) 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.

### **6) Other Challenges**

- a) Coping with regulatory reforms
- b) Development of skill of bank personnel
- c) Customer awareness and satisfaction
- d) Corporate governance
- e) Changing needs of customers
- f) Keeping pace with technology up gradation

- g) Lack of common technology standards for mobile banking
- h) Sustaining healthy bottom lines and increasing shareholders value
- i) Structural changes
- j) Man power planning

### **Opportunities**

Where there are challenges, there must opportunities. Following are the opportunities for the nationalized and commercial banks.

#### **1) 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.

#### **2) 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.

#### **3) 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.

#### **4) Internet Banking**

It is clear that online finance will pickup 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 up scaling could include banks launching separate internet banking services apart from traditional banking services.

#### **5) Retail Lending's**

Recently banks have adopted customer segmentation which has helped in customizing their product folios well. Thus retail lending's has become a focus area particularly in respect of financing of consumer durables, housing, automobiles etc., Retail lending's has

also helped in risks dispersal and in enhancing the earnings of banks with better recovery rates.

## **6) Indian Customers**

The growing Indian banking sector with its strong home country linkages, seek a unique combination of Indian ethnicity and global standards that offers a valuable nice opportunities for Indian banks. The biggest opportunity for the Indian banking sector today is the Indian costumers. Demographic shifts in terms of income level and cultural shifts in terms of life style aspirations are changing the profile of the Indian customer. This is and will be a key driver of economic growth going forward. The Indian customers now seek to fulfill his lifestyle aspirations at a younger age with an optimal combination of equity and debt to finance consumption and asset creation. The consumer represents a market for a wise range of products and services he need a mortgage to finance his house, an auto loan for his car, a credit card for ongoing purchases, a bank account, a long term investment plan to his child's higher education, pension plans for his retirement, a life insurance policy the possibilities are endless and this consumer does not live just in India's top ten cities. He represents across cities, towns and villages i.e. in rural areas. Consumer goods companies are already tapping this potential it is for the banks to make the most of the opportunity to deliver solutions to this market.

## **7) Other Opportunities**

- a) To enter new business and new markets
- b) To develop new ways of working
- c) To improve efficiency
- d) To deliver high level of customer services.

## **Conclusion**

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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