



CHALLENGES AND IMPACT OF MODERN BANKS

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ABSTRACT Today modern banking provides various services to their customers. Information technologies are providing new innovations in the product designing. Customers are king for the banking products and customer service is being a key role at their place. Banking ombudsman is a major support to the customers and clears their issues if require. RTGS, NEFT and IMPS are providing excellent service at online fund transfer. Online banking, Mobile banking and ATM are providing major service to the customers. This conceptual research paper is explaining various challenges and benefits of modern banking sector.

KEYWORDS : Banking, Customer, Role, Service, Technologies

1. Introduction

Modern banking sector provide service to sales model now. For example, if we go to the HDFC bank, now cashier is sourcing insurance product or canvassing for recurring deposit with their customers. This is really a good change. 15 years back banking service was poor if we compare of present trend. The tempo of development for the Indian banking industry has been remarkable over the past decade. It is evident from the higher pace of credit expansion, expanding profitability and productivity similar to banks in developed markets, lower incidence of non-performing assets and focus on financial inclusion have contributed to making Indian banking vibrant and strong. Indian banks have begun to revise their growth approach and re-evaluate the prospects on hand to keep the economy rolling.

2. GENERAL BANKING SCENARIO

The general banking scenario in India has become very dynamic now-a-days. Before pre-liberalization era, the picture of Indian Banking was completely different as the Government of India initiated measures to play an active role in the economic life of the nation, and the Industrial Policy Resolution adopted by the government in 1948 envisaged a mixed economy. This resulted into greater involvement of the state in different segments of the economy including banking and finance. The Reserve Bank of India was nationalized on January 1, 1949 under the terms of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948. In 1949, the Banking Regulation Act was enacted which empowered the Reserve Bank of India (RBI) "to regulate, control, and inspect the banks in India." The Banking Regulation Act also provided that no new bank or branch of an existing bank could be opened without a license from the RBI, and no two banks could have common directors.

By the 1960s, the Indian banking industry had become an important tool to facilitate the speed of development of the Indian economy. The Government of India issued an ordinance and nationalised the 14 largest commercial banks with effect from the midnight of July 19, 1969. A second dose of nationalization of 6 more commercial banks followed in 1980. The stated reason for the nationalization was to give the government more control of credit delivery. With the second dose of nationalization, the Government of India controlled around 91% of the banking business of India. Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalized banks and resulted in the reduction of the number of nationalised banks from 20 to 19. After this, until the 1990s, the nationalised banks grew at a pace of around 4%, closer to the average growth rate of the Indian economy. In the early 1990s, the government embarked on a policy of liberalization, licensing a small number of private banks. The next stage for the Indian banking has been set up with the proposed relaxation in the norms for Foreign Direct Investment, where all Foreign Investors in banks may be given voting rights which could exceed the present cap of 10%, at present it has gone up to 74% with some restrictions. The new policy shook the Banking sector in India completely. Bankers, till this time, were used to the 4-6-4 method (Borrow at 4%; Lend at 6%; Go home at 4) of functioning. The new wave ushered in a modern outlook and tech-savvy methods of working for traditional banks. All this led to the retail

boom in India. People not just demanded more from their banks but also received more.

3. CHALLENGES FACED BY INDIAN BANKING INDUSTRY

Developing countries like India, still has a huge number of people who do not have access to Banking services due to scattered and fragmented locations. But if we talk about those people Who are availing banking services, their expectations are rising as the level of services is increasing due to the emergence of Information Technology and competition. Since, foreign banks are playing in Indian market, the number of services offered has increased and banks have laid emphasis on meeting the customer expectations. Now, the existing situation has created various challenges and opportunity for Indian Commercial Banks. In order to encounter the general scenario of banking industry we need to understand the challenges and opportunities lying with banking industry of India.

3.1 Rural Market

Banking in India is generally fairly mature in terms of supply, product range and reach, even though reach in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region. Consequently, we have seen some examples of inorganic growth strategy adopted by some nationalized and private sector banks to face upcoming challenges in banking industry of India. For example recently, ICICI Bank Ltd. merged the Bank of Rajasthan Ltd. in order to increase its reach in rural market and market share significantly. State Bank of India (SBI), the largest public sector bank in India has also adopted the same strategy to retain its position. It is in the process of acquiring its associates. Recently, SBI has merged State Bank of Indore in 2010.

3.2 Human Resource Management

Gelade and Ivery (2003) examined relationships between human resource management (HRM), work climate, and organizational performance in the branch network of a retail bank. Significant correlations were found between work climate, human resource practices, and business performance. The results showed that the correlations between climate and performance cannot be explained by their common dependence on HRM factors, and that the data are consistent with a mediation model in which the effects of HRM practices on business performance are partially mediated by work climate. Bartel (2004) studied the relationship between human resource management and establishment performance of employees on the manufacturing sector. Using a unique longitudinal dataset collected through site visits to branch operations of a large bank, the author extends his research to the service sector. Because branch managers had considerable discretion in managing their operations and employees, the HRM environment could vary across branches. Site visits provided specific examples of managerial practices that affected branch performance. An analysis of responses to the bank's employee attitude survey that controls for unobserved branch and manager characteristics shows a positive relationship between branch performance and employees' satisfaction with the quality of performance evaluation, feedback, and recognition at the branch—the

“incentives” dimension of a high-performance work system. In some fixed effects specifications, satisfaction with the quality of communications at the branch was also important.

3.3 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. If we look at the Indian Banking Industry, then we find that there are 36 foreign banks operating in India, which becomes a major challenge for Nationalized and private sector banks. These foreign banks are large in size, technically advanced and having presence in global market, which gives more and better options and services to Indian traders.

3.4 Environmental Concerns

It is quite clear from the recently formed Copenhagen Climate Council (CCC) that there is a severe need for environmental awareness among all the countries of the world. CCC published Thought Leadership Series on Climate Change which is a collection of inspirational, concise and clearly argued pieces from some of the world's most renowned thinkers and business leaders on climate change. The objective of the pieces is to assist in enhancing the public and political awareness of the actions that could have a significant impact on global emissions growth and to disseminate the message that it is time to act. The Thought Leadership Series was aimed at explaining and spreading awareness of the key elements in the business and policy response to the climate problem. The rationale for the Thought Leadership Series was to change the focus of people.

3.5 Social and Ethical Aspects

There are some banks, which proactively undertake the responsibility to bear the social and ethical aspects of banking. This is a challenge for commercial banks to consider these aspects in their working. Apart from profit maximization, commercial banks are supposed to support those organizations, which have some social concerns. Benedikter (2011) defines Social Banks as “banks with a conscience”. They focus on investing in community, providing opportunities to the disadvantaged, and supporting social, environmental, and ethical agendas. Social banks try to invest their money only in endeavours that promote the greater good of society, instead of those, which generate private profit just for a few. He has also explained the main difference between mainstream banks and social banks that mainstream banks are in most cases focused solely on the principle of profit maximization whereas, social banking implements the triple principle of profit-people-planet.

4. CONCLUSION

Over the years, it has been observed that clouds of trepidation and drops of growth are two important phenomena of market, which frequently changes in different sets of conditions. The pre and post liberalization era has witnessed various environmental changes which directly affects the aforesaid phenomena. It is evident that post liberalization era has spread new colours of growth in India, but simultaneously it has also posed some challenges.

This article discusses the various challenges and opportunities like rural market, transparency, customer expectations, management of risks, and growth in banking sector, human factor, global banking, environmental concern, social, ethical issues, and employee and customer retentions. 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.

5. REFERENCES

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