Research Paper Management

A Review Article on New Private Sector Banks in India: Challenges And Opportunities

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ABSTRACT

The banking sector in India has a very big canvas of history. Private banking was started since starting of banking system in India. New private sector banks is one of the fastest growing sector in India. They promoted a world class institution in India having latest technology, new system, new standards of service and efficiency. The PSB have been the dominant role in the country's financial system. They have performed the key functions of providing liquidity and payment services faster than the public sector banks. In this paper an attempt has been made to identify the general challenges and opportunities for the Indian new PSB. First part includes introduction of Indian banking industry. The second part includes various challenges and opportunities. The last part emphasis on some important suggestion regarding new strategies. This article provides important seed of knowledge and is very useful for bankers and new researchers.

KEYWORDS efficiency, strategies, opportunities, challenges

INTRODUCTION:

The Indian Banking system is unique in the banking history of any country in the world. It is very interesting to study the evolution of Indian Banking, in terms of organization, functions, financial matter, Socio-economic role, different problems and solutions. During the period of last five decades many macro-economic developments, monetary and banking policies, regulations and the external situation has taken places. Only due to this evolution of Indian banking occur in different ways.

In India, banks can be classified into three part (1) public sector banks (2) private banks and (3) foreign banks.

The new generation private banks have now established themselves in new system and have set latest standards of service and efficiency. These banks have also given tough and good but healthy competition to the public sector banks in India. In India, as in many developing countries, the private sector banks have been the dominant role in the country's financial system. The Private sector has performed the key functions of providing liquidity and payment services faster than the public sector banks.

In India, Private sector Banking was started since the beginning of banking system. Indusind Bank was the first private sector bank set up in India. In the year 1969, a historic decision is taken by the government of India to nationalize 14 biggest private sector banks. And also few more banks were nationalized after few years. Than after RBI (RESERVE BANK OF INDIA) has classified private sector bank in to two main part (1) old private sector and (2) new private sector banks. Currently there are 25 total private sector banks in India. Out of this there are 18 Old Private Sector Banks and 7 new private sector banks formed by RBI.

STRUCTURE OF INDIAN BANKING INDUSTRY:

All banking industry working in India has to follow the rules and regulation provided by Reserve Bank of India. As RBI is the regulatory authority in India. According to RBI, Banking industry mainly consists of:

(1) Commercial Banks
(2) Co-operative Banks

The commercial banks in India divided in to 2 parts (1) Scheduled Commercial Banks (2) Unscheduled Bank. Scheduled commercial Banks constitute those banks which have been

included in the Second Schedule of Reserve Bank of India Act, 1934. For the purpose of assessment of performance of banks, the Reserve Bank of India categories them into 3 main parts are (1) Private Sector banks (2) Public sector banks (3) Foreign banks.

The co-operative Banks in India divided in to 3 parts (1) Regional Rural Banks (2) Urban Co-operative Banks (3) Rural co-operative credit institutions.

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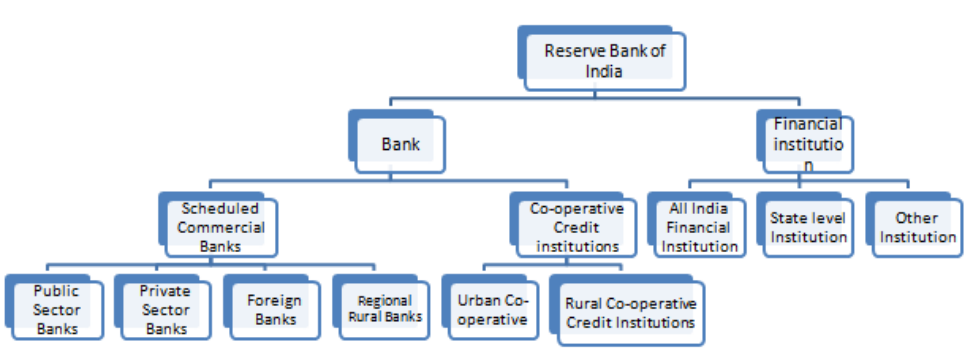

CURRENT SCENARIO OF NEW PRIVATE SECTOR BANKS:
New private sector banks are the fastest growing sector in India. Performance and efficiency of these banks have increased manifold. Evaluation of this sector is not an easy task. After the banks nationalization process done in the year 1969, the number of private sector banks increased. And due to presence of the new private sector banks and foreign banks has made the market competitive and it also improve the quality of services during the last two decade in India. These banks have established themselves in new and latest system and standard with good quality of service and good efficiency. In the year 1993, RBI announced guidelines for the establishment of 7 new private sector banks as per the recommendations of Narsimham committee-1 (1991)

Table: 1 New Private Banks In India

SR. No.	New Private Banks in India	Year of Establishment
1	Axis Bank	1994
2	Development Credit Bank	1995
3	HDFC Bank	1994
4	ICICI Bank	1996
5	Indusind Bank	1994
6	Kotak Mahindra Bank	2003
7	Yes Bank	2005

Source: RBI Bulletin

CHALLENGES FACED BY INDIAN BANKING INDUSTRY
India is a developing country. In India still there are huge numbers of people who do not use banking services due to their locations. But if we say about the people who generally use banking services, their expectations are raising due to the emergence of information technology and competitions in this industries. In India there are many foreign bank working since many years. They provided the best services to the customer and fulfill the expectations of customer. Now, the current situation has created many opportunity and challenges for Indian new private sector banks.

Rural Market:
India is a developing country. There are many villages and remote location in India. To reach in rural and village area there is big task for any bank. New private sector banks in India have develop very well. But still it remains a challenge for them to give adequate banking service. Out of new private sector banks ICICI Bank merged the Bank of Rajasthan in order to increase its reach in rural market and also market share very significantly. Rest of the bank also done some strategies to capture rural market but not get full success in India.

Risk Management:
Risk management is an important task of any bank. Type of risk is fundamentally changing with today's age of competition. There are different types of risk management related with bank like (1) Credit Risk management (2) Market Risk Management (3) Investment Risk management (4) Operational Risk Management. So we can say that risk management is a very big and wide area of any banking sector. As new private sector have to follow some norms and regulation laid down by RBI. And due to this compulsion they have to put the control over banking service.

Human Resource Management:
Management efficiency is another important element for any banking industries. In this parameter management of human resource is also included. To maintain and to get human resource is also a challenging job for any bank. Business per employee is also very important tool to measure the efficiency of the bank who generates business for the bank. All new private sector has to maintain this ratio in order to gain profit. So to do the business activities and to maintain new profit as per employee is really very difficult task.

Global Banking:
It is not practically possible for any nation to exclude itself from world economy. So for the sake of development, any country has to adopt integration process in the form of liberalization and globalization process. And India has also adopted liberalization and globalization process since 1991. And impact of globalization and liberalization becomes c kind of challenges for the domestic banks as foreign banks has came up with latest technology and system and facilities. So all new private sector banks have to compete with them. If we look at the Indian banking industry, then we know that there are total 36 foreign banks operating in India. These foreign banks are large in size and technically very advance so for all domestic banks has to compete with them.

Asset Quality management:
Asset quality management is also very much important parameter. In this element bank has to maintain NPAs as the part of assets quality management. They have to ascertain the component of net NPAs as percentage to total assets/net advances. Out of the total 7 new private sector banks NPA of DCB and ICICI Bank were significantly increasing due to the poor asset quality management and ineffective information systems. While remaining banks don't need to worry about their NPA. But all the bank have to take very good care about their NPA as this ratio indicates what types of assets bank is having. Lower the ratio is known as better the performance of bank and higher the ratio indicates worst performance of the bank. So to maintain this ratio is also a big task for any banks.

Employee' Retention:
Employee retention always starts with better recruitment of employee. To retain the good employee is big question for human resource manager as banking industry has transformed rapidly in the last decades. Shifting from one sector to another is very normal here as competition is on the top priority. If employee transfer form one banks to another it also decrease revenue. Due to the intrinsically close ties and relation between staff and clients, losing good employees completely can mean the loss of valuable customer. In the age of competition all new private sector banks has to face the challenge about employee's retention. Because they all give health salary packages and perks to their employee.

SUGGESTIONS:
As per the discussion in this review articles, we can say that biggest challenge for new private sector banking is to remain in the market of India. All new private sector banks shifted their focus from service to customer. If any bank wants to get success in this field they have to understand the customer and focus their needs. And also they have to work according to the current market trend. They have to cut their cost of their services and have to improve service standards. They have to furnish all latest techniques and modern facilities to their customer. Means technology up gradation is an inevitable aspect to face challenges in this modern age. Now a days quick service is must for each and every banks as generally all customer need to save the time factor. And also they need internet banking and mobile banking facilities so for the fulfillment banks has to give all possible facilities to retain and attract potential customer.

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