

Banking sector: Challenges

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Abstract

Banking all over the world is moving in a new direction, as the memories of global financial crisis are gradually fading. In India, a new phase of banking expansion is on the anvil and the Reserve Bank of India has already announced license for the setting up of new banks, with many more likely to come in the near future. But the expansion of banking network is also fraught with risk as it puts pressure on the regulators for increased control and supervision.

Keywords: banking sector, global financial crisis, supervision

Introduction

The paper examines the challenges faced by the Indian Banking Industry in the form of rural Market penetration,

management of risks and the role of the public and private banks, merger, acquisition and consolidation of banks in India.

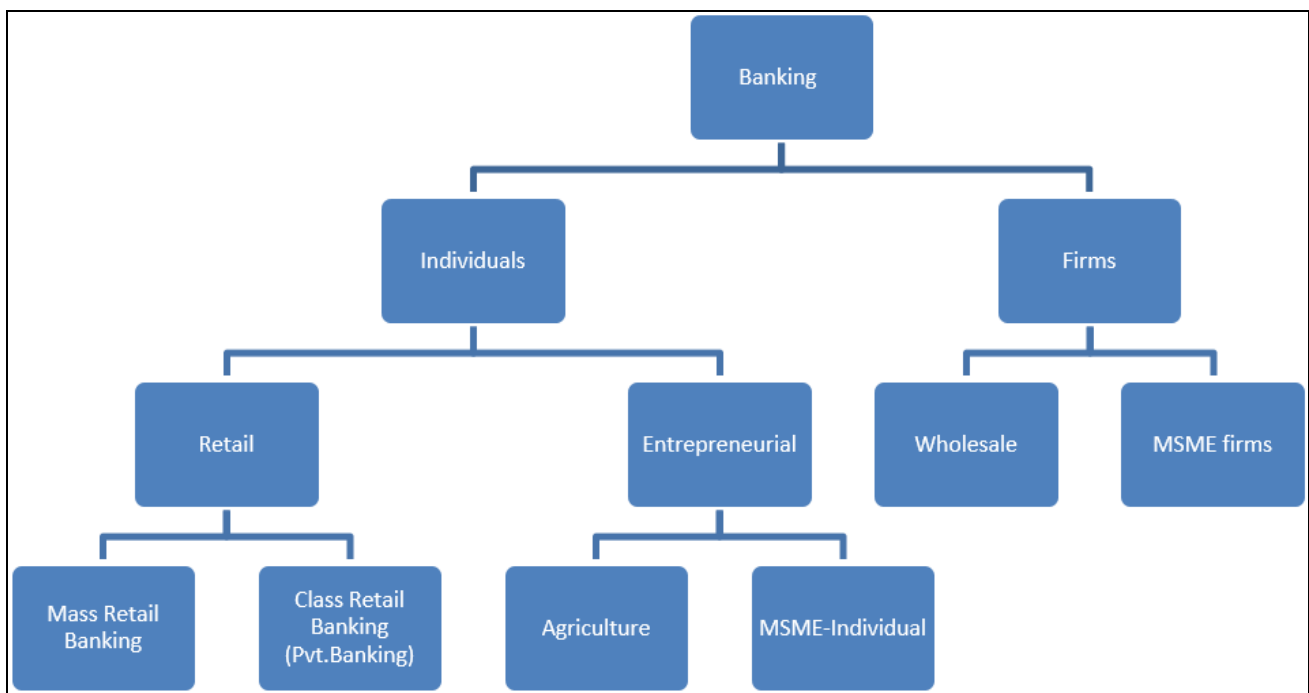


Fig 1

Challenges Faced by Indian Banking Industry

In order to encounter the general scenario of banking industry we need to understand the challenges and opportunities lying with the banking industry of India.

Management of risks

The growing competition increases the competitiveness among banks. But, existing global banking scenario is seriously posing threats for Indian banking industry. Researchers found that Indian banks risk management capabilities have been improving overtime. The study suggest that banks want to enhance shareholders wealth will have to focus on successfully managing various risks.

Rural market penetration

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 sheet relative to other banks in comparable economies in its region.

Growth of banking

The Indian banking industry experienced sustained productivity growth, which was driven mainly by technological progress. Foreign banks appear to have acted as technological innovators when competition increased,

which added to the competitive pressure in the banking market.

- **Market discipline and transparency**

Transparency and disclosure norms as a part of internationally accepted corporate Governance practices are assuming greater importance in the emerging environment. Banks are expected to be more responsive and accountable to the investors.

- **Human resource management**

Relationship between human resource management, work climate, and organizational performance in the branch network of retail bank. Significant correlations were found between work climate, human resource practices, and business performance.

- **Global banking**

It is practically and fundamentally impossible for any nation to exclude itself from world economy. Therefore, 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.

- **Financial induction**

Financial induction has become a necessity in today's business environment. Whatever is produced by business house, that has to be under the check from various perspective like environmental concerns, corporate governance, social and ethical issues.

- **Employees` retention**

The banking industry has transformed rapidly in the last ten years, shifting from transactional and customer service-oriented to an increasingly aggressive environment, where competition for revenue is on top priority.

- **Customer retention**

The major determinants of customer satisfaction and future intentions in the retail bank sector. They identified the determinants which include service quality dimensions, service features, service problems, service recovery and products used.

- **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.

Challenges in Digital Banking

- **Security risks**

External threats such as hacking, sniffing and spoofing expose banks to security risks. Banks are also exposed to internal risks especially frauds by employee`s / employees in collusion with customer.

- **Financial literacy/Customer awareness**

Lack of knowledge amongst people to use e-banking facilities is the major constraint in India.

- **Fear factor**

One of the biggest hurdle in online banking is preference to conventional banking method by older generation and mostly people from the rural areas. The fear of losing money in the online transaction barrier to usage of e-banking.

- **Training**

Lack of adequate knowledge and skills is a major deterrent for employees to deal with innovative and changing technologies in banks. Training at all levels on the changing trends in IT is the requirement of the day for the banks.

Other Challenges in Banking Sector

- **Availability of right data**

A key challenge is the availability of the right data. Data is the lifeblood of artificial intelligence, and any vulnerability arising from unverified information is a serious concern for business.

- **Language barrier**

India has 150 + languages with sizable spoken population. Applications which use speech to text or text to speech rely on natural language processing (NLP) libraries and techniques.

- **Data privacy**

Data access and data privacy is a central aspect of any AI work banks do. These aspects will be of paramount importance with introduction of regulations in Europe such as GDPR (General Data Protection Regulation).

- **Scarcity of trained human resources**

The biggest challenge is the scarcity of trained human resources; the existing workforce is not familiar with latest tools and applications. Secondly, the AI technology is a big threat to redundant employees in the banking sector. The mass adoption of AI may cause a grave unemployment problem in the sector.

- **Unavailability of skilled people**

One of the important challenges that is faced by Industry and not just banks in India is unavailability of people with right data science skills. Also, identification of right use cases AI implementation with the help of domain experts and data scientists can help banks in successful implementation of AI technologies for banking functions.

Challenges Facing the Electronic Mode of Payment

- **Low level of internet connectivity**

The success of otherwise of non-cash payment channels depend on reliable infrastructural facilities like constant energy supplies and widespread availability of point of interaction (POI) machines. E.g. ATMs, POS, Personal computers (PCs).

- **High level of Illiteracy level**

Unlike cash, non cash payment modes require some level of literacy for their effective use. This is one reason why cash usage is still prevalent as it poses no literacy challenge to users.

▪ No level of public awareness

For hundreds of years, payment mode have been skewed predominantly towards cash. Indeed in many parts of country, particularly outside cities, cash is the only mode of payment.

▪ Lack of customer confidence

In spite of the collaborated efforts of the central banks of all country with commercial banks and other stakeholders at various levels, inconsistency in most of the automated teller machine terminals across the world increasingly cast some doubt in the minds of majority of bank customers on the reliability or safety of these alternative modes.

Suggestion

As per the above discussion, we can say that the biggest challenge for banking industry is to serve the mass market of India. In order to mitigate above mentioned challenges Indian banks have cut their cost of their service. Apart from traditional banking services, Indian banks must adopt some product innovation so that they can compete in gamut of competition. The level of consumer awareness is significantly higher as compared to previous years. Now days they need internet banking, mobile banking and ATM services.

Conclusion

This article discusses the various challenges and opportunities like rural market, transparency, customer expectations, management of risks, Growth in banking sector, human factor, global banking, environmental concern, social, ethical issues, employee and customer relations. Banks are striving to combat the competition. The competition from global banks and technological innovation has compelled to rethink their policies and strategies. Based on the above findings, it can be concluded that technology has greatly influenced the bank customers encouraging them to conduct banking in an innovative manner. They have good awareness regarding ATMs and credit card whereas it is low in interest and mobile banking. Further it is revealed that variability of adoption of e-banking products is high among the bank customers where new generation bank customers are ahead of scheduled bank and nationalized bank customers.

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