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A STUDY ON FUTURE SCENARIO OF INDIAN BANKING INDUSTRY

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Abstract:

Banking scenario has changed rapidly since 1990s. The decade of 90s has witnessed a sea change in the way banking is done in India. Technology has made tremendous in banking. 'Anywhere banking' and 'Anytime banking' have become a reality. The financial sector now operates in a more competitive environment than before and intermediates relatively large volume of international financial flows. In the wake of greater financial deregulation and global financial integration, the biggest challenge before the regulators is of avoiding instability in the financial system.

Introduction:

Indian Banking system has played a crucial role in the socio economic development of a country. The liberalization, privatization and globalization polices initiated by Government of India in early 1990 have forced the Indian Industry to change their operational and business strategies. The banking system by far, the most dominant segment of the financial sector, accounting as it does for over 80% of the funds flowing through the financial sector and plays a vital role in the development of a sound economy. A healthy banking system, besides undertaking the role of financial intermediation also serves as an engine of growth Indian banking system is passed through a fast moving and competitive environment. Where changes are taking place at a much faster speed ever in the history of Indian Banking sector. Indian banking system is presently in the process of completing one full circle. Initially, it was in private sector. It moved to public sector with nationalization of banks in two stages in 1969 and 1980. Now with the proposal to reduce government stake in banks from 51% and 33%, Public sector banking is again moving in the direction of partial privatization.

The nationalization of banks introduced in 1969, brought a paradigm change and also a change in priorities of the banking sector apart from the purely commercial dimensions, social aspect also became significant after nationalization. The 1991 policy paradigm shift in the management of the economy through economic liberalization has brought yet another change in the banking scene. The emerging challenges, strategies and solutions which Indian banks face today are directly related to the change in environment that has been brought about for the Indian banking sector.

According to International credit rating agency, Indian banking system is weak and vulnerable. So it is a time when banks change to operate more consciously in the functions they perform. To meet the required challenges of globalization and privatization Indian banking system are facing the more stringent norms with reference to assets quality capital adequacy etc.

As rightly remarked by kalam, Ex-president of India, which India should emerge as a global leader in the services sector with its vast and skilled human resources bare being its core strength. The services will range from the simple to the more sophisticated ones using the emerging digital and communication revolution.

Changing Imperatives:

Risk Management and Basel II:

The future of banking will undoubtedly rest on risk management dynamics. Only those banks that have efficient risk management system will survive in the market in the long run. The effective management of credit risk is a critical component of comprehensive risk management essential for long-term success of a banking institution.

Although capital serves the purpose of meeting unexpected losses, capital is not a substitute for inadequate decontrol or risk management systems. Coming years will witness banks striving to create sound internal control or risk management processes, with the focus on regulation and risk management in the Base III framework gaining rominence, the post-Base II era will belong to the banks that manage their risks effectively. The banks with proper risk management systems would not only gain competitive advantage by way of lower regulatory capital charge, but would also add value to the shareholders and other stakeholders by properly pricing their services, adequate provisioning and maintaining a robust financial structure.

Consolidation of Banks:

On the consolidation of banks, especially public sector banks, the commission says that "while the gains from consolidation are expected along greater economies of scale and scope available to bigger banks, the evidence does not support an automatic association between large size and profitability.

On the other hand, bigger banks tend to rely much more on arm's length transactions and standardized balance sheets and loan accounts, on fee based income that seek to avert credit and interest risk, and on trading risk at the securities market. These tendencies give rise to the phenomenon of financial exclusion at the same time that it engenders financial fragility via a greater exposure to financial markets".

Technology:

There is an imperative need for not mere technology up gradation but also its integration with the general way of functioning of banks to give them an edge in respect of services provided to their constituents, better housekeeping, optimizing the use of funds and building up of MIS for decision making, better management of assets & liabilities and the risk assumed which in turn have a direct impact on the balance sheets of the banks as a whole. Technology has demonstrated potential to change methods of marketing, advertising, designing, pricing and distributing financial products and services and cost savings in the form of an electronic, self-service product delivery channel. These challenges call for a new, more dynamic, aggressive and challenging work culture to meet the demands of customer relationships, product differentiation, brand values, reputation, corporate governance and regularity prescriptions. Technology holds the key to the future success of Indian Banks.

Globalization of Financial Services:

Regulatory Changes:

The RBI's approval for banks to raise funds abroad through innovative capital instruments holds great significance. Such fund-raising, which includes preference shares, will, however, not just substitute equity; it could have unintended consequences on the strategies of banks and their profitability. While the cost of raising monies through such instruments is likely to be higher, the consequent higher leverage on equity funds is likely to result in expansion of return on net worth.

Rural and Social Banking Issues:

The banking system is expected to reorient its approach to rural lending. "Going rural" could be the new market mantra. Commercial Banks, Co-operatives and Regional Rural Banks are the three major segments of rural financial sector in India. Rural financial system, in future has a challenging task of facing the financial system, in future has a challenging task of facing the drastic changes taking place in the banking sector, especially in the wake of economic liberalization. There is an urgent need for rural financial system to enlarge their role functions and range for rural financial system to enlarge their role functions and range of services offered so as to emerge as "one stop destination for all services offered so as to emerge as "one stop destination for all types of credit requirements of people in rural/semi-urban centers.

Conclusion:

Indian banking sector has already implemented internationally followed prudential accounting norms for classification of assets, income recognition and loan loss provisioning. The scope of disclosure and transparency has also been raised in accordance with international practices. India has compiled with almost all the core principles of Effective Banking Supervision of the Basel committee. Some of the Indian banks are also presenting their accounts as per the U.S. GAAP. The roadmap for adoption of Basel II is also under formulation. All these factors give Indian banks much needed confidence for overseas operations.

Indian banks have also realized that with organic growth there is a need to grow inorganically as well, to be competitive with other players in the market. For e.g. State Bank of India, India's largest banks has acquired 76% state in the keynian bank, Giro Commercial Bank, ICICI Bank, Bank of India, Bank of Baroda have also followed the same route. Even nationally banks like if Punjab has been merged with Centurion Bank to form Centurion bank of Punjab Ltd, Ganesh Bank have also been merged with Federal Bank. Many such instances have started growing in the Indian banking industry thereby giving signals that inorganic growth is important to compete and sustain in the India banking industry. To meet these challenges of growing through inorganic growth and Indian banks going global, banks have started following international norms. There has been increased transparency in the system. The use of technology in the banking industry has changed things a lot, thus creating faster processes, addressing customer problems in a more efficient way etc. India has also compiled with all the Core Principles of Effective Banking Supervision of the Basel Committee.

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