Banking Sector in India- Challenges and Opportunities

The first bank in India was established in **1786** from till now, the journey of Indian Banking system can be segregated into three distinct phases, (i) Early Phase from 1786 to 1969 of Indian banks, (ii) Nationalisation of Indian banks up to 1991 and (iii) New phase of Banking System after banking sector reforms. In today's changing world, organisations are going through rapid changes in every sphere. In last two decades, the functions, responsibilities and services of banks have undergone a sea change due to introduction of the latest technology. The general banking scenario in India has become very dynamic now-a-days. 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. The Indian banking system consists of 27 public sector banks, 21 private sector banks, 49 foreign banks, 56 regional rural banks, 1562 urban cooperative banks and 94,384 rural cooperative banks, in addition to cooperative credit institutions as on FY17-FY18.

Indian Banks are increasingly focusing on adoption integrated approach to risk management. RBI has decided to set up Public Credit Registry (PCR) an extensive database of credit information which is accessible to all stakeholders according to **Mr. Amitabh Kant**, CEO of **NITI Aayog** (2017). Deposits under Pradhan Mantri Jan Dhan Yojana (PMJDY) are growing **INR 80,674.82 crore** (US $12.03 Billion) were deposited and 32.25 million accounts were opened in India. Rising incomes are expected to enhance the need for banking services in rural areas and therefore drive the growth of the sector. The digital payments revolution will trigger massive changes in the way credit is disbursed in India. Debit cards have radically replaced credit cards as the preferred payment mode in India, after demonetization. Debit cards garnered a share of 86.79 per cent of the total card spending.

Indian banking industry has been growing at a fast speed and is challenged with several facets like new regulations from time to time, changing customer needs and perceptions. Further, banking sector in India was also moving rapidly towards universal banking and electronic transactions, which were expected to change the way banking would be perceived in the future. Important events in the evolution of new age payment systems in India which includes arrival of card-based payments, debit card, credit card -late 1980's and early 1990's; introduction of Electronic Clearing Service

(ECS) in late 1990's; Electronic Funds Transfer/ Special EFT (EFT/SEFT) in the early 2000's; Real Time Gross Settlement (RTGS) in March 2004; NEFT (National Electronic Funds Transfer) as a replacement for EFT/SEFT in 2005/06; Plan for implementation of cheque truncation system as a pilot programme in New Delhi in 2007 and further implementation in 2013; migration from cash and cheque based payment system; it has become a necessity to electronic fund transfer system. In the recent past, the RBI has taken multiple steps to support electronification of payment instruments such as, establishing National Payments Corporation of India (NPCI) to act as an umbrella institution for all the retail payment systems, regulation and promotion of acceptance channels including ATMs, POS and payment gateway policy guidelines for issuance and operation of pre-paid payment instruments etc., issued guidelines and security measures for all online transactions. According to a report by ICRA Limited, a rating agency, the public sector banks hold over 75 percent of total assets of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively. More than 18 million credit cards are in circulation. The Indian **banking sector's assets reached 1.8 trillion US dollars in 2014-15** from 1.3 trillion US dollars in 2010-11, with 70 per cent of it being accounted by the public sector. Total lending and deposits increased at a compound annual growth rate **(CAGR) of 20.7 per cent and 19.7 per cent, respectively, between 2007 and 2014** and are further poised for growth, backed by demand for housing and personal finance. Indian Banks have successfully adopted **the Basel II norms** of international banking supervision and as per the Reserve Bank of India (RBI) majority of the banks have already met **Basel III capital norms** prior to its deadline of 31 March 2019.

In India, though we appear to be rich in human resources, our industries run short of useful human resources. As per KPGM-CII report, India's banking sector is expanding rapidly and has the potential to become the **fifth** largest banking industry in the world by 2020 and **third** largest by 2025. The Banking Industry is witnessing a revolution in products, process, market and regulations. And it's a revolution that is not about to stop or even slow down. In today's competitive environment, it is very challenging. India's central bank has some big concerns about the sustainability of the country's banking system. Information and communication technologies including the mobile phones and internet connectivity are the prime reason for expanding the reach of banking sector to the youth and rural habitations. An estimated 95% of transactions in India are paid for in cash but with the growing penetration of computers and smartphones, and increasing access to the internet, Indians are taking to digital channels for their banking needs. Cybercrime is becoming a greater threat as a result. Scams in the **erstwhile Global Trust Bank (GBT) and the Bank of Baroda** show how few officials misuse the freedom they granted under the guise of liberalization for their personal benefit. These scams have badly damaged the image of these banks and consequently there profitability. The absence of middle management could lead to adverse impact on banks' decision making process.

The biggest opportunity for the Indian Banking System today is the Indian Consumer. The **Indian Banking Sector** is at an exciting point in its evolution. The opportunities are immense- to enter new business and new markets, to develop new ways of working and to deliver higher levels of customer services. The banking system has to implement Basel III guidelines as per the directive of the RBI to make it a stronger sector. Some of the key measures of this include creating firm measures to make it foolproof of systemic risks, stringent timelines, ongoing improvement of quality and quantity of capital, liquidity risk management, value-based practices, solid mechanism, disclosures for total transparency and reduction of systemic risk in derivative and other money-related markets. The RBI has stipulated a time frame of five years to implement Basel III norms. But there are economy related hurdles as the government which holds majority stake in the **public sector banks** (PSBs) copes with the high fiscal deficit. Once the government decides to dilute its shares in the PSBs and brings it down to around 51 per cent, the Indian banking sector would see a sea change.

Steps taken by Government and Banking Sector, to effectively address the above issues the Government including the RBI and the Supreme Court and the Banks themselves have taken many initiatives. Some of them are –

1. The Ministry of Finance in its Economic Survey 2015-16 suggested **four R's - Recognition, Recapitalization, Resolution, and Reform** to address the problem of NPAs.
2. The Union Government unveiled plans **to infuse 70000 crore rupees** in the next few years, but PSU banks would need at least 1.8 lakh crore rupees by 2019-20.
3. In October 2015, the Government announced **Mission Indradhanush** under which 7 key strategies were proposed to reform public sector banks (PSBs).

4. In May 2015, **the RBI advised all PSBs to appoint internal Ombudsman** to further boost the quality of customer service and to ensure that there is undivided attention to resolution of customer complaints in banks.
5. The Government announced its intention to introduce a comprehensive **Insolvency and Bankruptcy Bill** in the Parliament based on the recommendations of **the Dr. T K Viswanathan-headed Bankruptcy Law Reforms Committee (BLRC).**
6. In order to rein in corruption, **the Supreme Court** on 23 February 2016 ruled that the top officials and employees of private banks will be considered as public servants for the purposes of **the Prevention of Corruption Act, 1988.**

Private Companies need to collaborate with RBI and Government of India to make more stable, reliable, innovative, secured and 4 R's. One of the most leading and renowned company, **Cisco** Pvt. Ltd has better and innovative solutions for Banking Sector. These can help in numerous ways to grow in all field of banking sector. **Cisco India** presented the next generation banking solution to customers across Mumbai, Kolkata, Chennai and Delhi, by partnering with Cisco, Banks can now deliver such a futuristic experience to their customers, and enable access to Banks resources, across locations. **Cisco Intent-based networking** can accelerate the Banking Sector of India**. Cisco DNA (Digital Network Center) for financial services** increases customer engagement, empower workforce and improve operation, by providing Insights and analytics, automation and assurance, security and compliance and visualization. **Big Data Analytics** can become the main driver of innovation in the banking industry**.IoT, Big Data and Machine Learning** can boost up banking sector in India. Big data has found an irreplaceable role in financial services. Several banks and financial institutions use analytics to diagnose and terminate fraudulent interactions. Big data might be a solution; it is not one without significant expense. They will hire more staff with skills in big data management. Data engineers and data scientists will soon become an everyday job requirement for banks, loan agencies, credit unions and even insurance companies. Machine Learning (ML) is currently the verge that has the biggest impact on the banking industry. The Machine Learning use cases are many—from sorting the email using **Natural Language Processing (NLP)** and automatically updating the records in the **Customer Relations Management (CRM)** solution, to providing efficient assistance through customer self-service portals and up to predicting the stock market trends in order to ensure successful trading. **SAS,** one of the pioneers of machine learning since the 1980s, have been using machines and neural networks to tackle credit card frauds. Now, several financial sectors are shifting from their old solutions for fraud detection to pattern analogy study using machine learning to tackle fraudulent cases. For the banks, three V's, i.e. variety, velocity, and volume, they can apply the results of big data analysis real time and make business decisions accordingly. This can be applied to the following activities:

1) Discovering the spending patterns of the customers
2) Identifying the main channels of transactions (ATM withdrawal, credit/debit card payments)
3) Splitting the customers into segments according to their profiles
4) Product cross-selling based on the customers' segmentation
5) Fraud management & prevention
6) Risk assessment, compliance & reporting
7) Customer feedback analysis and application

Internet of Things can help in making banking products better. Banks can install IoT devices like video tellers and kiosks in branches so that sensing technology can monitor and take action on the consumers' behalf. Internet of things like Biometric and a Positional sensor is helpful to the banking industry to track the quality control in a better way and to take a vital decision on business leading to stay ahead of the curve. For banks, payments as an area has a huge scope for implementing IoT applications. Banks can implement IoT technology to track and analyze the behaviors and demands of their customers. With this information, they can focus on providing customers with a more personalized experience, context-aware offers, and insights. Banks can also achieve a new level of understanding of the needs of both consumer and business clients, thus, attaining a new level of customer intimacy. IoT can help banks innovate and devise better ways to improve risk management and improve overall operational efficiency.

At last, The Indian Banking sector is faced with multiple and concurrent challenges. Banks need to think 'out-of-box' where box is the representation of all the tested, tried things that always worked in past. They would have to think outside the boundaries of current practices, products, services, organisation, and industries.