

# Influence of Some Challenges and Growth for Banking Sector in India

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## ABSTRACT

Developing markets and creating economies face one of the focal issues to be explicit strengthening of money related frameworks. This is a result of the reason that sound money related frameworks fill in as a fundamental channel for the achievement of monetary development through the initiation of budgetary reserve funds, putting them to gainful use and trading diverse risks. Numerous nations grasped a movement of monetary area headway measures in the late 1980s and mid 1990s that included advance cost progression, entry deregulations, diminishment of hold essentials and clearing of credit allotment. All things considered, the arranging of money related part movement orchestrated with that of capital record headway. Local banks were offered access to shoddy credits from abroad and allocated those advantages for household creation portions. Since the Asian monetary emergency of 1997-1999, the noteworthiness of offsetting budgetary headway with adequate bearing and supervision before full capital record movement has been continuously seen. The crisis was gone before by massive, unnoticed short – term capital inflows, which by then annoyed twofold befuddles and undermined the soundness of the local money related segment. An advancement scramble is all things considered unavoidable in the financial area since business banks recognize without a moment's hesitation stores and change over them into respectably longer-term, every now and again illiquid, assets. Coincidentally, tremendous, overwhelmingly without a moment's hesitation capital inflows-by and large as between bank credits contracted banks' liabilities thusly developing the advancement bewilder. This paper focuses on India's financial part, which has been pulling in growing thought since 1991 when money related change program was impelled. This paper illuminates a portion of the Growths that have happened in the Indian financial segment and difficulties for the financial division in view of method of banking Improvement began in 1992.

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## 1. Introduction

India confronted a full scale budgetary crisis in 1991. The remote trade serves finance contacted a low. The country transforming into a defaulter in installments showed up as reasonable likelihood. The economy was developing at an incredibly low rate. This set the Government of India on a method for progression and globalization of Indian economy. The methodology of Improvement normally expected to start from money related division Improvement. From 1947 to 1990, there was astonishing expanding of the financial framework, which is the most vital constituent of money related division. In any case, close to the completion of 1990, there was a general accord that the financial framework has not ended up being adequately stable as it should have been. There was cause for real stress by goodness of poor money related states of business banks, an extensive segment of which were in open part. A portion of these banks had ended up being unrewarding, under advanced with anomalous condition of nonperforming assets. The disguised nonperforming assets were prepared for initiating off an essential monetary emergency. The banks were no spot near the universal dimension benchmarks as for capital adequacy, bookkeeping rehearses, etc in a globalized economy, it crippled to finish up clearly a noteworthy hindrance. Out of such concerns, Government of India assigned an abnormal state board of trustees headed by Shri. M. Narasimham, a past Governor of

the Reserve Bank of India to address the issues and propose the healing measures.

## 2. Review of literature:

The recommendations of the committee became the basis of financial sector and banking sector Improvement.

## 3. Growths in the banking sector:

Banking industry has changed greatly since 1969. Banks, aside from playing out their standard limits, have turned out with new sorts of money related administrations viz leasing, calculating, protection, investment, lodging account, buyer money, dealer banking and common assets, etc. Developments that have happened in the financial business in light of the method of Improvement is inspected underneath.

**Reduction in SLR and CRR:**The proposal with respect to diminishment of Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) has been overwhelmingly executed. The convincing SLR has been brought down to 25% The CRR in like manner has been chopped down a couple of times. It is right now being used even more regularly as an instrument of financial strategy.

**Higher Interest Rates:** One reason for low profit of the banks was a high pre-emption of advantages through SLR and CRR and that too at exceptionally low return. The Government of India used these benefits as financing of its own tasks with ease; the landing to the banks was lower than the expense of raising these assets. Through number of steps the benefits on these assets have been improved. The heading of Improvement is that Govt. will pay in any occasion the expense of rising of such assets.

**Bank Supervision:** Leading body of Financial supervision has been set up. It manages banks, budgetary foundations and NBFC'S. Another way to deal with 'On location' supervision was put into power in July 1997.

**Branch Licensing:** Branch permitting has been changed. Residential banks fulfilling capital amplexness standards are allowed to begin new branches. Banks can shut down misfortune making unviable branches aside from rustic branches.

**Bank's Access to Capital Market:** Nationalized banks have been allowed to raise capital from open up to 49% of the capital.

**Valuation of Bank's investment in Government securities:** Valuation norms of investment in Government are being brought on par with international practices.

**Branch Licensing:** Branch licensing has been liberalized. Domestic banks satisfying capital adequacy norms are free to start new branches. Banks can close down loss making unviable branches except rural branches

**Turning into Buyer's Market:** Earlier the credit market was seller's market; a good part of finance market has become buyer's market. Banks take pain to live up to the expectations of customers. Adoption of new technologies has become easier.

**Capital Adequacy Norms:** Narasimham Committee-I recommended phased introduction of Bank of International Settlements norms regarding capital adequacy ratio.

**Directed Credit:** Number of directed credit categories has been reduced. The interest subsidy on directed has also been reduced; return on loans to SSI Units has also been increased

**Prudential Accounting Standards:** Prudential accounting norms regarding income recognition, asset classification and provisioning have been implemented in a phased manner. Currently, these norms are close to international standards

**Change in the Approach of Banks:** The deregulation of interest rates has changed the basic approach of managing these banks. Earlier the pricing of loans was based at a common 'cost plus profit' basis. It was a process based administration. Now, the pricing of loans has become free. The banks have developed their own 'risk assessment' model. Different risks have to be suitably identified and the price of the loan has to be determined accordingly

**Setting up of New Banks:** An important Growth has been easing of norms for entry in the field of banking. This has resulted in significant increase in the number of new private sector banks and increase in the network of foreign banks. These new banks have set the tone and standards for technological improvements As a result, public sector banks have been forced to adopt new technologies to retain their dominant position. This has improved the quality of services being offered to the customers

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**Narrowing down of Distinction between Banks and Financial Institutions:** The Improvement have narrowed down the distinction between banks and financial institutions are moving towards 'Universal Banking'

**Reduction of Non-Performing Assets:** Continuous efforts are being made to bring down the level of non-performing assets particularly in public sector banks

**Securitization and Reconstruction of Financial Assets:** The securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 has empowered banks and financial institutions to directly enforce the security interest pledged with them without having to go through the judicial process of the DRT or Civil Courts. The secured creditor can also transfer security interest to a securitization or asset reconstruction company.

#### 4. Challenges ahead:

The process of liberalization and globalization has presented certain challenges to the Indian Banking which are briefly discussed below.

**Competition from Global majors:** The Improvement have brought about a fierce competition from international banks. Many of these international banks are entering in collaboration with Indian partners. To compete, the Indian Banks have to acquire financial muscle. The size of the bank is likely to become important. This may force mergers on some of the banks to acquire competitive size.

**Competition from new banks:** The entry of new private sector banks has changed the ways of banking in India. Equipped with latest technology and products, these banks have aroused the customers' expectations very high.

**Pressure on Spread:** Spread is the difference between interest earned and interest payable. This competition has and will bring pressure on spreads. One way of easing pressure will be non-fund based earnings. The increase in margins may have to be compensated through high turnover. Innovations of new banking products and innovative re-positioning in the market may determine future success.

**Changes in product pricing:** 'Cost plus' pricing has almost disappeared. The products have to be priced based risk assessment.

**Management of Non-Performing Assets:** As of late, the banks have had the capacity to perform by virtue of productivity. Notwithstanding, the executives of non-performing resources keeps on involving concern. The non-performing resources have caused issues around the world. Be that as it may, as of late, there has been a critical overseeing and lessening NPA's

**Managing Technology:** The transformation in data innovation has influenced banking industry also. Truth be told, real shoppers of PC programming innovation are business banks. Be that as it may, innovation conveys a substantial sticker price and it is important to blend business and innovation procedures intently, if the innovation venture is to demonstrate financially savvy.

**Relationship Banking:** The relationship banking has made late arrival on the Indian scene. Banks will have to acquire and other new skills to establish a mutually beneficial relationship with their customers.

**Self- Regulation by banks:** The advancement will call for self-guideline through a self-administrative association.

**Challenges from the structure of Indian Economy:** Certain difficulties will rise up out of the structure and size of the Indian Economy. The banks won't almost certainly disregard any one fragment of the economy. In a nation India's mastery and different kinds of aberrations, the banks will be looked with specific issues in regards to their methodology.

## 5. Conclusion:

Since the money related Improvement of 1991 there have been basic great changes in India's exceedingly overseen banking area. This paper hurls light on the Growths that have happened in the Indian financial framework in view of procedure of banking Improvement and difficulties ahead for it. It presumes that the money related Improvement have affected diminishing the centralization of the financial area and improving execution. Furthermore, enabling banks to partake in non-standard activities has added to improved productivity and cost and salary capability of the whole financial area including open division banks. By separate, enthusiasm for government securities has cut down the efficiency and cost viability of the whole financial area, including open part banks. The present technique of modifying the financial segment through enabling the area of new banks has so made some positive results. In any case, the manner in which that resistance has happened exactly at the lower end suggests that bank controllers should lead a progressively escalated remaking of open division banks. Given that open area banks have scale central focuses, the present methodology of improving their execution without pardoning them may not convey further advantages for India's financial segment. As two decades have gone since the Improvement were begun and open area banks have been displayed to the new managerial condition, it may be the perfect open door for the Government to make a further walk by propelling mergers and acquisitions and closing unviable banks. A further diminishing of SLR and more prominent help for non-standard activities may similarly make the financial segment more grounded to various unfavorable stuns.

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