# Challenges and Opportunities of Banking Sector in India

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**ABSTRACT:**

The banking industry in India has a huge canvas of history, which covers the traditional banking practices from the time of Britishers to the reforms period, nationalization to privatization of banks and now increasing numbers of foreign banks in India. Therefore, Banking in India has been through a long journey. Banking industry in India has also achieved a new height with the changing times. The use of technology has brought a revolution in the working style of the banks. Nevertheless, the fundamental aspects of banking i.e. trust and the confidence of the people on the institution remain the same. The majority of the banks are still successful in keeping with the confidence of the shareholders as well as other stakeholders. However, with the changing dynamics of banking business brings new kind of risk exposure.

In this paper an attempt has been made to identify the general sentiments, challenges and opportunities for the Indian Banking Industry. This article is divided in three parts. First part includes the introduction and general scenario of Indian banking industry. The second part discusses the various challenges and opportunities faced by Indian banking industry. Third part concludes that urgent emphasis is required on the Indian banking product and marketing strategies in order to get sustainable competitive edge over the intense competition from national and global banks.

**Keywords:**

Efficiency, strategies, opportunities, challenges

## 1. **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 recent time, we has witnessed that the World Economy is passing through some intricate circumstances as bankruptcy of banking & financial institutions, debt crisis in major economies of the world and euro zone crisis. The scenario has become very uncertain causing recession in major economies like US and Europe. This poses some serious questions about the survival, growth and maintaining the sustainable development.

However, amidst all this turmoil India's Banking Industry has been amongst the few to maintain resilience. The tempo of development for the Indian banking industry has been remarkable over the past decade. It is evident from the higher pace of credit expansion, expanding profitability and productivity similar to banks in developed markets, lower incidence of non- performing assets and focus on financial inclusion have contributed to making Indian banking vibrant and strong. Indian banks have begun to revise their growth approach and re-evaluate the prospects on hand to keep the economy rolling. In this paper an attempt has been made to review various challenges which are likely to be faced by Indian banking industry.

### 1.1 **HISTORICAL BACKGROUND**

Bank of Hindustan was set up in 1870; it was the earliest Indian Bank. Later, three presidency banks under Presidency Bank's act 1876 i.e. Bank of Calcutta, Bank of Bombay and Bank of Madras were set up, which laid foundation for modern banking in India. In 1921, all presidency banks were amalgamated to form the Imperial Bank of India. Imperial bank carried out limited number of central banking functions prior to establishment of RBI. It engaged in all types of commercial banking business except dealing in foreign exchange.

Reserve Bank of India Act was passed in 1934 & Reserve Bank of India (RBI) was constituted as an apex body without major government ownership. Banking Regulations Act was passed in 1949. This regulation brought RBI under government control. Under the act, RBI got wide ranging powers for supervision & control of banks. The Act also vested licensing powers & the authority to conduct inspections in RBI.

In 1955, RBI acquired control of the Imperial Bank of India, which was renamed as State Bank of India. In 1959, SBI took over control of eight private banks floated in the erstwhile princely states, making them as its 100% subsidiaries.

It was 1960, when RBI was empowered to force compulsory merger of weak banks with the strong ones. It significantly reduced the total number of banks from 566 in 1951 to 85 in 1969. In July 1969, government nationalised 14 banks having deposits of Rs. 50 crores & above. In 1980, government acquired 6 more banks with deposits of more than Rs.200 crores. Nationalisation of banks was to make them play the role of catalytic agents for economic growth. The Narasimha Committee report suggested wide ranging reforms for the banking sector in 1992 to introduce internationally accepted banking practices. The amendment of Banking Regulation Act in 1993 saw the entry of new private sector banks.

Banking industry is the back bone for growth of any economy. The journey of Indian Banking Industry has faced many waves of economic crisis. Recently, we have seen the economic crisis of US in 2008-09 and now the European crisis. The general scenario of the world economy is very critical.

It is the banking rules and regulation framework of India which has prevented it from the world economic crisis. In order to understand the challenges and opportunities of Indian Banking Industry, first of all, we need to understand the general scenario and structure of Indian Banking Industry.

## 1.2 <u>GENERAL BANKING SCENARIO IN INDIA</u>

The general banking scenario in India has become very dynamic now-a-days. Before preliberalization era, the picture of Indian Banking was completely different as the Government of India initiated measures to play an active role in the economic life of the nation, and the Industrial Policy Resolution adopted by the government in 1948 envisaged a mixed economy. This resulted into greater involvement of the state in different segments of the economy including banking and finance.

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. In 1949, the Banking Regulation Act was enacted which empowered the Reserve Bank of India (RBI) "to regulate, control, and inspect the banks in India." The Banking Regulation Act also provided that no new bank or branch of an existing bank could be opened without a license from the RBI, and no two banks could have common directors.

By the 1960s, the Indian banking industry had become an important tool to facilitate the speed of development of the Indian economy. The Government of India issued an ordinance and nationalised the 14 largest commercial banks with effect from the midnight of July 19, 1969. A second dose of nationalization of 6 more commercial banks followed in 1980. The stated reason for the nationalization was to give the government more control of credit delivery. With the second dose of nationalization, the Government of India controlled around 91% of the banking business of India. Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalized banks and resulted in the reduction of the number of nationalised banks from 20 to 19. After this, until the 1990s, the nationalised banks grew at a pace of around 4%, closer to the average growth rate of the Indian economy.

In the early 1990s, the then Narasimha Rao government embarked on a policy of liberalization, licensing a small number of private banks.

The next stage for the Indian banking has been set up with the proposed relaxation in the norms for Foreign Direct Investment, where all Foreign Investors in banks may be given voting rights which could exceed the present cap of 10%, at present it has gone up to 74% with some restrictions.

The new policy shook the Banking sector in India completely. Bankers, till this time, were used to the 4-6-4 method (Borrow at 4%; Lend at 6%; Go home at 4) of functioning. The new wave ushered in a modern outlook and tech-savvy methods of working for traditional banks. All this led to the retail boom in India. People not just demanded more from their banks but also received more.

In India, banks can be classified into three parts:

(1) Public sector banks (2) Private Banks and (3) Foreign banks.

**2. Objectives of the study:**

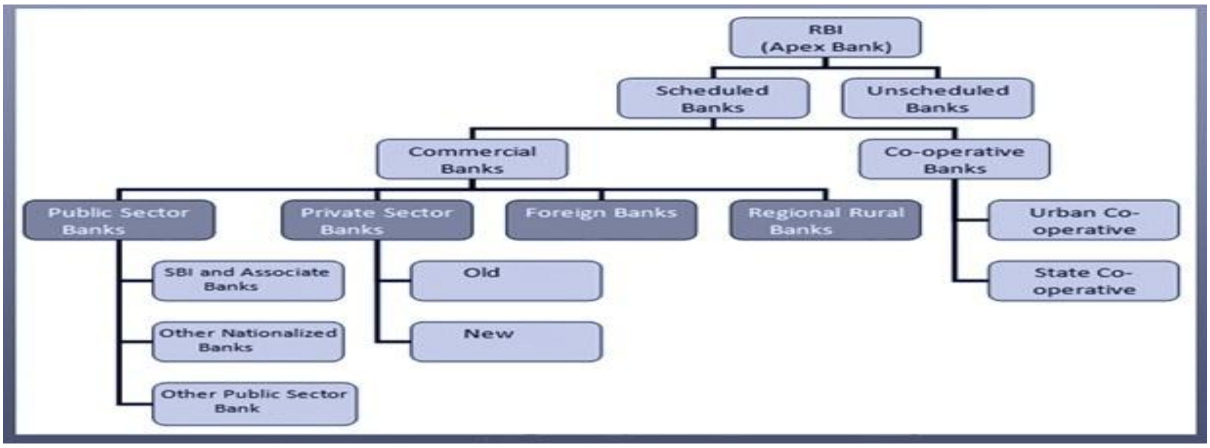
- To analyse the structure of commercial banking structure in India
- To scrutinize the various challenges affecting the growth of banking sector
- To provide suggestions for overcoming the challenges

**3. Methodology:**

The study is based on secondary data where the information is collected from various sources like books, journals, websites and magazines.

**4. Structure of Indian Banks**

**Figure: 1**




The commercial banking structure in India consists of: Scheduled Commercial Banks Unscheduled Bank. Scheduled commercial Banks constitute those banks which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934.

RBI in turn includes only those banks in this schedule which satisfy the criteria laid down vide section 42 (60) of the Act. Some co-operative banks are scheduled commercial banks although not all co-operative banks are. Being a part of the second schedule confers some benefits to the bank in terms of access to accommodation by RBI during the times of liquidity constraints. At the same time, however, this status also subjects the bank certain conditions and obligation towards the reserve regulations of RBI.

For the purpose of assessment of performance of banks, the Reserve Bank of India categorise them as public sector banks, old private sector banks, new private sector banks and foreign banks.

**Figure 2: Commercial banking structure in India**

| Sl.No | Nationalized Banks | Old Private Sector Banks | New Private Sector Banks | Foreign Banks |
|---|---|---|---|---|
| 1 | Allahabad Bank Ltd. | Catholic Syrian Bank Ltd. | Axis Bank Ltd. | Abu Dhabi Commercial Bank |
| 2 | Andhra Bank Ltd. | City Union Bank Ltd. | Development Credit Bank Ltd. | American Express Bank |
| 3 | Bank of Baroda Ltd. | Dhanalakshmi Bank Ltd. | HDFC Bank Ltd. | Bank International Indonesia |
| 4 | Bank of India Ltd. | Federal Bank Ltd | ICICI Bank Ltd. | Bank of America NA |
| 5 | Bank of Maharashtra Ltd. | ING Vysya Bank Ltd. | IndusInd Bank Ltd. | Bank of Ceylon |
| 6 | Canara Bank Ltd. | Jammu and Kashmir Bank Ltd. | Kotak Mahindra Bank Ltd. | Bank of Nova Scotia (Scotia Bank) |
| 7 | Central Bank of India Ltd. | Karnataka Bank Ltd. | Yes Bank Ltd. | Bank of Tokyo Mitsubishi UFJ |
| 8 | Corporation Bank Ltd. | Karur Vysya Bank Ltd. | | Barclays Bank PLC |
| 9 | Dena Bank Ltd. | Lakshmi Vilas Bank Ltd. | | BNP Paribas |
| 10 | IDBI Bank Ltd. | Nainital Bank Ltd. | | Calyon Bank |
| 11 | Indian Bank Ltd. | Ratnakar Bank Ltd. | | Chinatrust Commercial Bank |
| 12 | Indian Overseas Bank Ltd. | SBI Commercial and | | Citibank N.A. |

| | | | | |
|---|---|---|---|---|
| | | International Bank Ltd. | | |
| 13 | Oriental Bank of Commerce Ltd. | South Indian Bank Ltd. | | DBS Bank |
| 14 | Punjab and Sind Bank Ltd. | Tamilnad Mercantile Bank Ltd. | | Deutsche Bank AG |
| 15 | Punjab National Bank Ltd. | | | HSBC |
| 16 | Syndicate Bank Ltd. | | | JPMorgan Chase Bank |
| 17 | UCO Bank Ltd. | | | Krung Thai Bank |
| 18 | Union Bank of India Ltd. | | | Mashreq Bank psc |
| 19 | United Bank of India Ltd. | | | Mizuho Corporate Bank |
| 20 | Vijaya Bank Ltd. | | | Royal Bank of Scotland |
| 21 | State Bank of Bikaner and Jaipur Ltd. | | | Shinhan Bank |
| 22 | State Bank of Hyderabad Ltd. | | | Société Générale |
| 23 | State Bank of India Ltd. | | | Sonali Bank |
| 24 | State Bank of Mysore Ltd. | | | Standard Chartered Bank |
| 25 | State Bank of Patiyala Ltd. | | | State Bank of Mauritius |

| | | | | |
|---|---|---|---|---|
| 26 | State Bank of Travankore | | | UBS |
| 27 | | | | VTB |

## 4. CHALLENGES FACED BY INDIAN BANKING INDUSTRY:

### *i) Asset quality*

Though on the whole, the banking system has remained resilient, asset quality has seen sustained pressure due to continued economic slowdown. The levels of gross non-performing advances (GNPAs) and net NPAs (NNPAs) for the system have been elevated. As per preliminary data received at RBI for March 15, while the GNPAs have increased to 4.45% for the system as a whole, the NNPAs have also climbed up to 2.36%. When seen in isolation, the NPA ratios do not appear very distressing; however, if we add the portfolio of restructured assets to the GNPA numbers, this rises alarmingly. Stressed Assets Ratio (Gross NPA+ Restructured Standard Advances to Gross Advances) for the system as a whole stood at 10.9% as at the end of March 2015. The level of distress is not uniform across the bank groups and is more pronounced in respect of public sector banks. The Gross NPAs for PSBs as on March 2015 stood at 5.17% while the stressed assets ratio stood at 13.2%, which is nearly 230 bps more than that for the system.

It is pertinent here to also note the observations made in the Global Financial Stability Report released by IMF recently. Referring to the high levels of corporate leverage, the report highlights that 36.9 per cent of India's total debt is at risk, which is among the highest in the emerging economies while India's banks have only 7.9 per cent loss absorbing buffer, which is among the lowest. While these numbers might need an independent validation, regardless of that, it underscores the relative riskiness of the asset portfolio of the Indian banks.

As you all know, RBI has taken various steps to improve the system's ability to deal with corporate and financial institution distress. This includes issuance of guidelines on "Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalising Distressed Assets in the Economy, detailed guidelines on formation of Joint Lenders' Forum (JLF), Corrective Action Plan (CAP), 'Refinancing of Project Loans', 'Sale of NPAs by Banks' and other regulatory measures, which emphasized the need for early recognition of financial distress and for taking prompt steps for rectification, restructuring or recovery, thereby ensuring that interests of lenders and investors are protected.

Various reports that I get suggest that the implementation of JLF framework needs further improvement on the ground level. We have received representations from bigger lenders about non-cooperation from a few lenders. On the other hand, smaller lenders have voiced their concerns about being arm twisted by bigger lenders. Unless, there is proper co-ordination between the interested parties, all the revival efforts are likely to fall flat.

RBI had given a road map for ending the regulatory forbearance on asset classification of restructured accounts long back and accordingly, the forbearance has come to an end on March 31, 2015. There has been a lot of clamour from all quarters for extending this forbearance. Our stand on this issue has been absolutely clear. I wish to highlight that 'Restructuring' *per se* is not necessarily a forbidden word. It is a legitimate financial activity practiced the world over to help the borrowers tide over short term problems and to preserve economic value in the system. I don't know why restructuring a loan which is under short term stress should not be done. What we are saying is that, the banks must acknowledge the problem, admit that the account is facing stress as of now, but is expected to recover in future. Hence, make a small provision and reverse it when the account becomes satisfactory and starts paying. Staying in denial mode does not help anyone especially in an interconnected world where regulation making has become global and so has the public scrutiny. Any forbearance extended by the regulator will be discounted by the investor/ analyst community while assessing the bank's financials.

***ii) Capital adequacy of banks***

Concerns have been raised about the ability of our banks to raise additional capital to support their business and I would admit that these concerns are not entirely misplaced, especially for the public sector banks. Higher level of capital adequacy is needed due to higher provisioning requirements resulting from deterioration in asset quality, kicking in of the Basel III Capital norms, capital required to cover additional risk areas under the risk based supervision framework as also to sustain and meet the impending growth in credit demand, going forward.

Though at present, the banking system is adequately capitalized, challenges are on the horizon for some of the banks. For the system as a whole, the CRAR has been steadily declining and as at the end of March 2015, it stood at 12.70% as against 13.01% as at the end of March 2014. Our concerns are larger in respect of the PSBs where the CRAR has declined further to 11.24% from 11.40% over the last year.

The poor valuations of bank stocks, especially the PSBs, are not helping matters either, as raising equity has become difficult. When even the best performing PSBs have been hesitant to tap the markets for augmenting their capital levels, it would be difficult for the *weaker* PSBs to raise resources from the market. There is a constraint on the owners insofar as meeting the capital needs of the PSBs and hence, the underperforming banks are faced with the challenge of looking at newer ways of meeting their capital needs. A singular emphasis on profitability ratios (based on RoA and RoE) perhaps fails to capture other aspects of performance of banks and could perhaps encourage a short term profitability-oriented view by bank management. However, without getting into the merits of this approach, from a regulatory stand point, we feel that some of these poorly managed banks could slide below the minimum regulatory threshold of capital if they don't get their acts together soon enough. Of course, the pressure may lessen somewhat if, going forward, the asset quality improves on account of higher growth, resulting in higher retained earnings for banks. The need of the hour for all banks, and more specifically, in respect of the PSBs, is that capital must be conserved and utilized as efficiently as possible.

***iii) LCR framework***

As you are aware, the Liquidity Coverage Ratio (LCR) regime has kicked in for the banks from January 1, 2015 with a minimum requirement of 60% to be gradually increased to 100% by January 1, 2019 in a phased manner. The LCR is a ratio of High Quality Liquid Assets (HQLA) to the Total Net Cash Outflows prescribed to address the short term liquidity risk of banks and the banks would be required to maintain a stock of HQLAs on an ongoing basis equal to the Total Net Cash Outflows.

Banks have been asking for reduction in SLR citing the implementation of the LCR framework. To a certain extent their request has merit. SLR essentially serves the same purpose as the LCR. However, SLR does not assume certain outflow rates for liabilities while outflow and inflow rates under the LCR framework are based on certain assumptions of stress. Presently, apart from maintaining LCR at 60%, the banks have to maintain SLR of 21.5% of the NDTL. Going forward, as the LCR requirements gradually increase, it may be desirable to reduce the SLR progressively. Presently, there is a special dispensation wherein RBI has permitted banks to reckon up to 7% of the SLR towards LCR (2% of MSF and 5% under FALLCR[1]). Our regulatory department is seized of the issue and would take appropriate measures to address this issue going forward.

***iv) Unhedged forex exposures***

The wild gyrations in the forex market have the potential to inflict significant stress in the books of Indian companies who have heavily borrowed abroad. This stress, besides impacting repayment of forex liabilities, eventually hampers their debt repayment capability to the domestic lenders as well. It is precisely with this consideration that RBI has been advocating a curb on the increasing tendency of the corporates to dollarize their debts without adequate risk mitigation.

Our supervision of banks' books has highlighted the need for the banks to have more robust policies for risk mitigation on account of unhedged foreign currency exposure of their corporate borrowers. Inadequacies of data further complicate the impact assessment of such exposures across the banking system. The banks have been advised to factor in this risk into their policies/ pricing decision and also devise means for sharing of information on such exposures amongst themselves. Regulatory guidelines have also since been issued outlining the capital and provisioning requirements for exposure to entities with significant unhedged forex exposures.

***v) Human resource issues***

I do not need to emphasize the HR issues in banks. This is a decade of retirement for the PSBs and I am sure those working there are already feeling the pinch of the loss of experienced hands in their day to day operations. While the recruitments would be happening at the junior levels, there would be a virtual vacuum at the middle and senior level for some time to come. The absence of middle management could lead to adverse impact on banks' decision making process as this segment of officers played a critical role in translating the top management's strategy into workable action plans. Some of the major banks are also suffering on account of prolonged leadership vacuums at the top. All banks, including those in the private sector, are witnessing high attrition rates, giving rise to resource gaps. The problem is set to get accentuated further once the banks that have been newly licensed/ likely to be licensed, start hiring. Therefore, bridging resource gaps and managing employee turnover are major challenges that banks need to be prepared to address.

The banks need to continuously enhance the skill levels of their employees so as to remain viable and competitive and to take advantage of new opportunities. The banking personnel, across the cadres need to be suitably trained to acquire necessary skill sets to perform their jobs more efficiently. The biggest challenge is to build capacity at a rate which matches the loss of existing talent and skills to retirement, poaching and resignations. The training initiatives must ensure that the available talent pool in the banks is able to always keep pace with the fast changing ways in which banking is conducted. Of course, in these challenges also lie an inherent opportunity for banks to redraw their organizational profile and to create HR systems and processes best suited to the needs of the future.

***vi) Revision to the priority sector lending guidelines***

The revised priority sector lending guidelines have been released last week. Lending to a few new sub-sectors like renewable energy, social infrastructure and to the medium enterprises would now be treated as priority sector lending. Concept of a tradable Priority Sector Lending Certificate (PSLC) has also been introduced, which would enable the 'deficit' banks to buy these certificates from 'surplus' banks to meet their targets.

There is also readjustment in some sub-targets, whereby the banks are now required to progressively achieve 8% of lending to Small and Marginal Farmers and 7.5% to the micro enterprises among the MSEs in a phased manner. This has been brought about with an underlying objective of making available finance to the most needy and the most alienated of the borrowers. This may probably pose a bit of a challenge initially but I believe with proper planning, these targets could be achieved sooner rather than later.

***vii) PMJDY and beyond***

It must be complimented that the banking sector for wholeheartedly working for the success of the PMJDY scheme. The numbers speak for themselves. More than 14.5 crore accounts opened. That leads to the question- what next? Flow of individual savings, albeit howsoever small combined with flows from direct benefit transfer would be crucial to give an initial push to keep these accounts active while extending productive/need-based credit would be the second crucial step. The onus is upon all of us to ensure that the window of opportunity that has been presented by the opening of such a large number of accounts, is not put to waste by allowing the accounts to turn inactive.

The credit absorption capacity of the farmers can be enhanced through consolidation of fragmented landholdings by ushering in land reforms or through pooling of land holdings in a SHG format. Similarly, customers may also be trained to undertake non-farm activities. Efforts to enhance the credit absorption capacity must also be supplemented through financial literacy and vocational training initiatives. Improved financial literacy would aid the inculcation of a savings culture and investment habit amongst the customers, which can be leveraged by the banks by offering suitable small savings, investment and pension products.

A major challenge for the banks would be to manage their banking correspondent model effectively. The problems relating to their viability, governance, cash management, linkage and oversight from a base branch need to be quickly addressed. The entire financial inclusion ecosystem must progressively develop, if the momentum gathered under the PMJDY exercise has to be sustained for all-round benefit of all stakeholders.

***viii) Globalization of regulation-making process***

As it is alluded to a little earlier, banking regulations are getting increasingly globalized, subject of course to certain national discretions. As members of the standard setting bodies like BCBS and FSB, we are committed to implement these regulations in our jurisdictions. There is a process for peer review of regulatory guidelines issued by various jurisdictions to ascertain compliance with the global standards, failure to adhere to which would render the jurisdiction non-compliant to the standards. While we do participate in the regulation making process and suggest modifications to protect the rightful interests of the domestic economy, very often, we have to abide by the larger framework. One example viz. the large exposures regime, for which a consultation paper on new SBL/GBL norms has already been released by RBI.

### *ix) Technology and its impact*

Let me briefly touch upon an issue which is relatively much more pertinent for the PSBs, i.e. use of technology in banking. All PSBs are now on CBS platform and have developed capabilities to offer anywhere banking. Few have also started offering basic banking transactions on mobile for their customers. But this is just scrapping the surface as the technology can be leveraged for a far greater effect. PSBs must be able to leverage technology for building data warehouses and then be able to do data mining and analytics. The goal should be to use data for effective decision making at various levels, including product customization, developing business models and delivery channels, etc.

PSBs must be able to pitch suitable products for their customers through internet and mobile banking channels. Traditional businesses are slowly moving on-line and e-commerce is the preferred choice of the gen-next customer. The challenge before the PSBs is to upscale their capabilities, train their employees on the new technologies to benefit from the possibilities that adoption of technology can open up.

A good thing going for the banks is the current recruitment of youngsters in the work force. This new-generation staff is tech-savvy and can quickly connect with technology. The enterprising among them must be accorded freedom to experiment and suggest ways in which the bank could reengineer its processes for its own benefit and that of its customers. This would require a change in mind-set of the senior / Top Management and this must happen if the PSBs have to compete efficiently and effectively with the private sector counterparts in future.

### *x) Treating customers fairly*

Protection of bank customers has been one of the thrust areas for RBI in recent times. As you may be aware, RBI has issued a Charter of Customer Rights based on the global best practices. The Charter comprises of following five rights:

- Right to Fair Treatment
- Right to Transparency, Fair and Honest Dealing
- Right to Suitability

- Right to Privacy
- Right to Grievances Redress and Compensation

A model customer rights policy jointly prepared by IBA and BCSBI incorporating these rights has been circulated to all banks by IBA. The banks have been advised to prepare a Board Approved Policy based on the model policy before July 31, 2015. RBI may review the policies framed by the banks and their implementation as part of our supervisory assessment over the next 12-18 months.

***xi) KYC compliance***

Let us now turn to another very important issue which is equally challenging for the private sector banks as well and that is, compliance with the KYC norms. A majority of the enforcement action by the banking sector regulator in the recent past has been on account of these violations.

The instances of fake e-mails soliciting unsuspecting customers to make payments to certain bank accounts as a precursor to receiving prize or lottery winnings from abroad, have become quite rampant. It is surprising that even well-educated individuals are falling prey to such incredulous offers. While spreading financial literacy remains a huge challenge, the banks cannot be absolved of their responsibilities in the sequence of events. Most of this money is being transferred through banking channels and obviously, there is a deficiency in KYC compliance. Money mulling is another common occurrence which highlights deficiencies in risk categorization of customers and monitoring of transactions.

We are emphasizing on this issue because banks need to be sensitive to the possibility of regulatory strictures / penalties for non-compliance. Consistent monitoring of transactions is necessary to prevent money mulling. A few banks in the past have already been fined for deficiencies in adherence to KYC norms and with our commitment to comply with the FATF norms; we can only forewarn that the frequency and severity of such penalties would rise in future.

***xii) Balance sheet management***

Over the past few years we have witnessed an increasing propensity to defer or delay provisions in an apparent attempt to post higher net profits. Probably, this short term vision is also in part attributable to short term tenure which the CEOs/ CMDs get. It must be appreciated that CEOs/ CMDs would come and go but the institutions are perpetual entities. The only thing which can perpetuate their existence is a stronger and healthier balance sheet. It must be realized that the first step towards resolving a problem is to acknowledge its existence. The problems which are swept under the carpet for a quarter or two would need to be encountered thereafter, with the issue getting further complicated in the interim.

Making higher provisions would not only add strength to the balance sheet, but also lead to better control over tax out-go and the dividend pay-out, besides adding credibility to the bank's financial statements. While a lower net profit would make headlines for a day or two, believe me the savvy long-term investors / analysts do not read too much into the short term blips. If they understand that the Management is sincere about repairing the balance sheet, they would drive up the valuation of your stocks, which would help you in the long-term. With most banks in dire need of capital, the retained earnings need to increase progressively.

As a part of balance sheet management exercise, the Board/Top Management would have to proactively take a call on the likely components of their balance sheets and what shape they would like the balance sheet to take in future. The objective of optimal utilization of capital would have to be necessarily kept in mind while evolving balance sheet management strategies.

***xiii) Risk management***

Risk is inevitable in the banking business and hence, a sound risk management framework is the touchstone of an efficient bank. The risk management effectively aims at balancing the Risk-Return Trade-off which is "maximizing return for a given risk" and "minimizing risk for a given return". The responsibility of setting a risk appetite for the bank as a whole is that of the Board and the Top Management. In practice, however, we seldom see the articulation of an objective risk appetite statement by the PSBs. If you haven't set out a risk limit for each type of risk that the bank runs and an aggregate risk appetite for the bank as a whole, how do you measure and monitor risk? We must understand that risk management is integral to the success of the bank and hence, the Top Management should strive to put in place an efficient risk management framework keeping in view the changing market dynamics and the regulatory prescriptions.

## 5. SUGGESTIONS:

As per the above discussion, we can say that the biggest challenge for banking industry is to serve the mass market of India. Companies have shifted their focus from product to customer. The better we understand our customers, the more successful we will be in meeting their needs. In order to mitigate above mentioned challenges Indian banks must cut their cost of their services. Another aspect to encounter the challenges is product differentiation. Apart from traditional banking services, Indian banks must adopt some product innovation so that they can compete in gamut of competition. Technology up gradation is an inevitable aspect to face challenges.

The level of consumer awareness is significantly higher as compared to previous years. Now-a days they need internet banking, mobile banking and ATM services.

Expansion of branch size in order to increase market share is another tool to combat competitors. Therefore, Indian nationalized and private sector banks must spread their wings towards global markets as some of them have already done it. Indian banks are trustworthy brands in Indian market; therefore, these banks must utilize their brand equity as it is an valuable asset for them.

## Conclusion:

As we have noted, these are challenging times for the banking sector but as the clichéd proverb goes "Every cloud has a silver lining". The future leaders in the banking industry would be those who identify this silver lining early and initiate necessary steps to leverage the opportunity. The impending competition from new banks and the large number of new accounts opened under the PMJDY Scheme are two instances that readily come to mind of the challenges that could be turned into opportunities. Besides this, banks as the key players in the country's financial system also carry the responsibility of supporting economic growth, once the economic cycle turns favourable. Banks have to prepare themselves for meeting this responsibility by nurturing a healthier balance sheet.

Over the years, it has been observed that clouds of trepidation and drops of growth are two important phenomena of market, which frequently changes in different sets of conditions. The pre and post liberalization era has witnessed various environmental changes which directly affects the aforesaid phenomena. It is evident that post liberalization era has spread new colours of growth in India, but simultaneously it has also posed some challenges.

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 retentions. Banks are striving to combat the competition. The competition from global banks and technological innovation has compelled the banks to rethink their policies and strategies.

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