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# Problems and Prospects of Indian Banking Industry

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*ABSTRACT*

India's banking industry is made up of scheduled banks, non-scheduled banks, and development banks. It also includes cooperative banks, local area banks, and non-banking financial companies (NBFCs.The present paper analyses the efficiency of all the bank groups in the post- banking sector reforms era. Time period of the study is related to second post-banking sector reforms (1999-2000 to 2005-06). This period has been chosen taking into consideration the following factors; On the basis of some parameters of efficiency i.e. profitability per employee, per branch, business per employee, per branch and expenses per employee and per branch, the paper concludes that efficiency of all the bank groups has increased in the second post-banking reforms period but these banking sector reforms are more beneficial for new private sector banks and foreign banks. At the end, paper suggests some measures for the improvement of efficiency of Indian nationalized banks.

**Keywords: parameters, efficiency, improvement, measurement, instrumental**

## Introduction:

As per the Reserve Bank of India (RBI), India's banking sector is sufficiently capitalised and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well.The Indian banking industry has recently witnessed the rollout of innovative banking models like payments and small finance banks. In recent years India has also focused on increasing its banking sector reach, through various schemes like the Pradhan Mantri Jan Dhan Yojana and Post payment banks. Schemes like these coupled with major banking sector reforms like digital payments, neo-banking, a rise of Indian NBFCs and fintech have significantly enhanced India's financial inclusion and helped fuel the credit cycle in the country.Indian Fintech industry is estimated to be at US$ 150 billion by 2025. India has the 3rd largest FinTech ecosystem globally. India is one of the fastest-growing Fintech markets in the world.

There are currently more than 2,000 DPIIT-recognized Financial Technology (FinTech) businesses in India, and this number is rapidly increasing.The digital payments system in India has evolved the most among 25 countries with India's Immediate Payment Service (IMPS) being the only system at level five in the Faster Payments Innovation Index (FPII). India's Unified Payments Interface (UPI) has also revolutionized real-time payments and strived to increase its global reach in recent years.

## Review of Literature:

Harold (2006) has abstracted the balance score card (BSC) framework to develop a comprehensive performance measurement and management tool for IT in banking. In this paper, the author illustrates how a cascade of balanced scoreboards can be instrumental in the banking technology effectiveness of banks in India to ensure better performance measurement. Mariappan (2005-06) analyzed that IT revolution has brought stunning changing in the business environment perhaps no other sector has been influenced by advances in technology as much as banking and finance, as a result, the banking pose a totally new look today. Technology has been used a strategies to win market and customers. Patnaik

(2004) his paper stress upon that shared ATMs is taking place and they are mutually beneficial. This mushrooming new dimension of shared ATMs has increased non-interest income of the banks. This is the most popular e-channel and widely used in all the bank groups. Singla (2008) examines that how financial management plays a crucial role industrialists growth of banking. It is concerned with examining the profitability position of the selected sixteen banks of banker index for a period of six years (2001-06). The study reveals that the profitability position was reasonable during the period of study when compared with the previous years. Strong capital position and balance sheet place. Banks in better position to deal with and absorb the economic constant over a period of time.

**Problems of Statement**

The banking industry faces a wide range of challenges, from regulatory changes to increasing competition from new digital players. In this article, we'll take a closer look at the top challenges facing the banking industry and explore how banks are responding to these challenges.

**Research Methodology**

The present research paper is based on purely secondary data. Which is descriptive in nature? Data has been collected from different research available on website journal, Newspaper, and some books and reports of government of India.

**Results and Discussion**

**Profitability per Employee:**

The profit per employee is in the range of Rs.0.41 to 2.32 lakhs during the study period in G-I, similarly, it was between Rs.0.77 to 2.04 lakhs in G-II, Rs.1.08 to 6.15 lakhs in G-III and Rs.8.07 to 15.17 lakhs in G-V. The G-I, II (Public Sector Banks), even old private sector banks (G-III) have shown poor efficiency in terms of profit per employee as compared to new private sector banks and foreign banks. But our new private sector banks are competing with the foreign banks whose average performance is higher (18.14) as compared to foreign banks where average is only 11.68 in at the end of the study period. This overall trend of increasing employee profitability may be attributed to the reduction in the number of employees following the launch of VRS by some of the Indian banks as well as higher profits by the banks. On an average, new private sector banks enjoy a higher increase in their profitability per employee, as compared with their counterpart public sector banks. This may be attributed largely to the better technology that the new private sector banks employ, besides the advantage of carrying no historical baggage. ICICI and HDFC Banks in G-IV are dominating in profit per employee whereas Corporation Bank, OBC and PNB have the higher per employee profit in G-I whereas Punjab & Sindh Bank, UCO Bank and Dena Bank are responsible for lowering the profit per employee.

**Profitability per Branch:**

For Indian public sector banks, the profits per branch were in the range of Rs.6.39 to 41.08 cr. during the study period. Among the Indian banks, new private sector banks displayed the highest profits per branch that lie between Rs.19.09 to 174.34 cr. But overall, foreign banks show excellent results in this parameter. The profitability per branch was in the range of Rs.623.56 to 1405.67 cr. On an inter-temporal basis, per branch profits have been increasing gradually in the Indian banking sector. The growth in branch profits for Indian banks is attributable to the overall increase in profitability in the banking industry. In the case of the foreign peer group, profitability per branch shows a small increase over the period covered by this study. Hence, on an average, branch profitability of foreign banks is higher than that of G-I, II, III & IV. But, we can also say that G-IV is quite active and competing with foreign banks.

**Expenses per Employee:**

On an average, Indian bank pays less as compared to foreign banks. Among Indian banks, new private sector banks pay on an average Rs.59.83 lakhs as compared to G-I, II & III who pay Rs.14.00, 14.43 & 18.07 lakhs respectively. The highest expenses per employee incurred by G-V (foreign banks) having Rs.79.84 lakhs per employee. The G-

IV & G-V pays higher and attractive salary to the efficient employees; they also provide better facilities and incentives to their employees. Due to this reason, per employee expenses are higher even return per employee is much higher as compared to their counterparts.

**Expenses per Branch:**

Among the Indian banks, average per branch expenses incurred by new private sector banks (G-IV) is at the tune of Rs.1169.06 lakhs as compared to G-I, II % III with branch expenses of Rs.205.34, 303.38 & 228.74 lakhs respectively. But branch expenses are the highest in G-V having amount of Rs.6364.72 lakhs for each branch. Overall, we may conclude that among the Indian bank groups, new private sector banks had shown excellent growth in their efficiency and this group is competing with foreign banks in terms of many parameters of efficiency. Number of factors are contributing in their excellent efficiency performance like work culture, dedication, loyalty, technology, better facilities, new products/ services, management, transparency etc.

**Business per Employee:**

Since different employees in a bank contribute in different ways to the revenues and profits of a bank, it is difficult to come up with one universal metric that captures the business per employee accurately. The business per employee is quite low in G-I, II & III as compared to G-IV & V. the average per employee business is the highest in G-IV i.e. Rs.905.83 lakhs and G-V has an average of Rs.901.50 lakhs during the study period. Thus, deposits mobilization and advances per employee are higher in G-IV & V. These bank groups are providing a better interest on deposits and lower interest on advances; their market policies are quite effective as compared to Indian public sector banks. III as compared to that of G-IV & V. it was only Rs.2704.17 lakhs in G-I whereas it was Rs.17659.17 lakhs in GIV and Rs.73263.17 lakhs in G-V. In this parameter, foreign banks have lion's share among all the Indian bank groups. Hence, the new private sector banks in India have led the way in this regard, because of the better use of technology and other infrastructure.

**Challenges Faced by the Banking Sector in India**

These are the challenges faced by banking sectors:

**1. Regulatory Changes:**

One of the biggest challenges facing the banking industry is regulatory changes. Banks must comply with various regulations, from anti-money laundering (AML) to data protection laws. Keeping up with these changes can be a time-consuming and costly process, which can impact the profitability of banks.To address these challenges, many banks are investing in technology solutions to automate regulatory compliance. These solutions can help banks stay up to date with regulatory changes and streamline compliance processes.

**2. Cyber security Risks:**

As banks become more digital, they also become more vulnerable to cyber-attacks. Cyber security risks are a major concern for the banking industry, and banks must invest heavily in cyber security solutions to protect their customers' data and prevent fraud.

To address these challenges, many banks are partnering with cyber security firms to develop more robust security measures. Banks are also investing in employee training programs to help them identify and prevent cyber-attacks.

**3. Customer Expectations**

As consumers become more digitally savvy, their expectations for banking services are changing. Customers now expect seamless, personalized experiences across all channels, from mobile banking apps to online portals. To meet these expectations, banks are investing in digital solutions that provide customers with easy-to-use interfaces and personalized experiences.Many banks are also adopting new technologies, such as artificial intelligence and machine learning, to better understand their customers and provide more relevant recommendations.

**4. Increasing Competition**

The banking industry is facing increasing competition from new digital players, such as finch

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startups and digital banks. These players are able to offer innovative products and services that traditional banks may struggle to match. To compete with these new players, many banks are investing in their own digital solutions and partnering with finch startups. Banks are also exploring new business models, such as open banking, which enables third-party providers to access customer data to develop new services.

### 5. Economic Uncertainty

The global economy is facing increasing uncertainty, with factors such as political instability and trade tensions impacting economic growth. These uncertainties can impact the banking industry, as banks may face reduced demand for loans and other financial services that are major sources for banks to make money.

To address these challenges, banks are taking steps to diversify their portfolios and reduce their exposure to risk. Banks are also investing in technology solutions that enable them to better analyze economic data and make more informed decisions.

### 6. Fintech Disruption

The rise of fintech companies is disrupting the traditional banking industry. Fintech companies are often able to offer faster, cheaper, and more innovative services than traditional banks. This is forcing banks to adapt and compete by investing in their own technology and partnering with fintech companies to offer new services.

### 7. Talent Management

Attracting and retaining top talent is a challenge for many banks. As the industry evolves, banks need employees with a wide range of skills, including technological expertise, regulatory compliance knowledge, and customer service skills. Banks must invest in training and development programs to help employees stay up-to-date on new technologies and regulations

## Conclusion:

The banking industry faces various challenges, from regulatory changes to increasing competition. To address these challenges, banks invest in technology solutions, partner with fintech startups, and explore new business models. By staying agile and adapting to changing market conditions, banks can remain competitive and continue to meet the needs of their customers.

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