IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

BANKING SECTOR REFORMS AND CHALLENGES 2020

Dr. Mohmed Ali
Professor in Business Management,M.B.A. Department,Tallapadmavathi College of Engineering,Kazipet, Warangal.

Abstract
Banking Sector is one of the most essential sector and known as the indicator of the economy. The reforms are introduced to strengthen the banking system and to solve the deficiencies and errors which are pointed out from the various stake holders during its functioning and to provide the customer oriented services. The main aim of the bank is to solve the problems of the customers which are taking place during the banking transaction process and with the main objective is to recover the bad loans and reduce the none performing assets and strengthening the overall health of the public sector banks to face international competitions. This paper focuses on the reforms, the recent emerging trends and challenges faced by the banking sector.

Keywords: Banking Reforms, non performing assets, customer oriented services.

Introduction

The banking system is central to a nation's economy. Banks are special as they not only accept and deploy large amounts of uncollateralized public funds in a fiduciary capacity, but also leverage such funds through credit creation. In India, prior to nationalization, banking was restricted mainly to the urban areas and neglected in the rural and semi-urban areas. Large industries and big business houses enjoyed major portion of the credit facilities. Agriculture, small-scale industries and exports did not receive the deserved attention. Therefore, inspired by a larger social purpose, 14 major banks were nationalized in 1969 and six more in 1980. Since then the banking system in India has played a pivotal role in the Indian economy, acting as an instrument of social and economic change. The rapid advancement in Information and Communication Technology (ICT) has a profound impact on the banking industry and the wider financial sector over the last two decades and it has now become a tool that facilitates banks' organizational structures, business strategies, customer services and other related functions. The recent "IT revolution" has exerted far-reaching impacts on economies, in general, and the financial services industry, in particular. Within the financial services industry, the banking sector was one of the first to embrace rapid globalization and benefit significantly from IT development. The technological revolution in banking started in the 1950s, with the installation of the first automated book keeping machines at banks. This was well before the other industries became IT savvy. Automation in banking became widespread over the next few decades as bankers quickly realized that much of their labor-intensive information-handling processes could be automated with the use of computers. The first Automated Teller Machine (ATM) is reported to have been introduced in the USA in 1968, and it was only a cash dispenser. The advent of ATMs helped both to improve customer convenience and reduce costs, as before ATMs, withdrawing funds, accounts inquiries and transferring funds between accounts required face-to-face interaction between bank staff and customers. The world over banking system is the focal point in the financial set-up of any developing country. Banks are regarded as special in view of their specialized functions in the financial intermediation evolved around the banking system. The giving and taking of credit in one form or other is believed to have existed in India as early as in the Vedic period. In the six decades since independence, banking in India has evolved through some of the distinct phases. These could be categorized as

- Evolutionary Phase (Prior to 1948)
- Foundation Phase (1950 to 1969)
- Rapid expansion Phase (1970-1984)
- Consolidation Phase (1985 – 1990)
- Reformatory Phase (1991-2000)
- Mergers and Acquisition Phase (2001 – 2014)
- Consolidation Phase (2014 onwards)

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

Review of literature

- Turban (2002) pointed that Reputation depends on policy promises to customers, including privacy policy, as most customers do not like their personal information revealed in an inappropriate manner or misused by others over the Internet.
- S.C.Gupta (2005) in his article entitled "Internet Banking changing Vistas of Delivery Channel" focused on Internet banking in India, Customer expectations, Marketing Strategy of Banks and challenges faced in India, Advantages for banks, Security concern and Safeguards to prevent security breaches..
- Shamdasani (2008) in his research observed that when it comes to the future success and continuity of internet banking, perceived customer value will play a vital role in influencing continued interaction although perceived interaction

Research Methodology

The paper is based on secondary data. The data has been collected from internet, articles newspapers, Magazines etc.

Objectives

- To study the banking sector reforms in the various stages
- To examine the recent challenges faced by the banking sector

Recent Trends and developments in the banking sector

As per the financial and industry experts, 2020 is an interesting number and bankers are expecting that it will be a special year because they have taken the toughest decisions last year, and the result is awaited in 2020. Whether it is keeping high provisions, controlling liquidity, not taking any exposure in NBFCs, or adopting new technologies and services. The recent trends and developments in the banking sector are as follows.

Rise of Credit Growth

According to a Boston consulting group report, the retail banking will grow rapidly in 2020 – 21 financial year. The Mortgages to grow fast and will cross Rs 40 trillion by 2020. But currently, the credit demand is low on both corporate and retail sectors. RBI has assured that India's financial system is stable despite weak growth and projected that demand will rise in 2020. But according to ratings agency ICRA, the credit growth in 2020 will be 50 years low. Major sectors such as automobiles, real estate are down and banks took cautious calls by preserving the liquidity.

Recovery from Bad Loans

Bankers will carry the stringent action to recover the bad loans in 2020 as well. IBC has made debtor responsible and bankers are feeling strong like never before. Despite being a special law and deadline to close the cases, resolution is not easy. Currently, as per NCLT data, more than 10 thousand cases under IBC are pending before NCLT.The backlog of NCLT will continue in 2020 as well. In a lighter note, Rajnish Kumar of SBI once said, that every morning he prays to god to resolve the three large accounts that are stuck at NCLT. Kumar was referring to — Essar Steel, Bhushan Power & Steel, and Alok Industries — where SBI is expected to recover Rs 16000 crore. If there are more defaults, more cases will be filed in NCLT and Banks will not have any other option but to wait and pray for the resolution.

Public Sector Bank Merger execution and stake reduction

Amalgamation of PSBs was one of the bold decisions that the government took in 2019. They merged 10 banks into 4 and the total number of PSBs reduced from 27 to 12. Financial experts have supported the idea of merging banks but the question is how will they execute? The government has recapitalized banks but the change in management, infrastructural issues, transfer of senior officers are still in the process. Also, the government is very slow in recruiting the heads of the PSB's. What is more important to see in 2020 is how the execution of the merged banks pans out. What will also drive the PSBs in 2020 is whether the government reduces its holding in PSBs to 51%.

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

Private Banks Building business

Private Banks are also facing the challenges in the banking sector. Major Private Banks such as ICICI Bank, Axis Bank, and Yes bank went through a big reshuffle. All three banks got new CEOs. Also, the CEO of HDFC is going to retire in 2020. Every private bank has a different episode. In 2020, it is crucial to see how do they deal with the NPAs, raise funds and generate credit demand. The major challenge for the new management in the banks is to make a sustainable and profitable banking business.

Digitization of Banks

With the rapid growth of technology, the initiation of digitalization of banks was took place and it became imperative for banking and financial services in India to keep up with the changes and innovate digital solutions for the tech-savvy customers. Besides the financial institutions, insurance, pharmacy, healthcare, retail, trade, and commerce are some of the major industries that are experiencing the enormous digital shift. To stay competitive, it is necessary for the banking and financial industry to adopt the digitalization. In India, it all began not earlier than the 1980s when the banking sector introduced the use of information technology to perform basic functions likes customer service, book-keeping, and auditing. Soon, Core Banking Solutions were adopted to enhance customer experience. However, the transformation began in the 1990s during the time of liberalization, when the Indian economy exposed itself to the global market. The banking sector opened itself for private and international banks which are the prime reason for technological changes in the banking sector. Today, banks and financial institutions have benefitted in many ways by adopting newer technologies. The shift from conventional to convenience banking is incredible. Modern trends in banking system make it easier, simpler, paperless, signature less and branchless with various features like IMPS (Immediate Payment Service), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), Online Banking, and Telebanking. Digitization has created the comfort of “anywhere and anytime banking.” It has resulted in the reduced cost of various banking procedures, improved revenue generation, and reduced human error. Along with increased customer satisfaction.

Unified Payments Interface

Unified Payments Interface has changed the way payments are made. It is a real-time payment system that enables instant inter-bank transactions with the use of a mobile platform and Internet banking. In India, this payment system is considered the future of retail banking. It is one of the fastest and most secure payment gateways that is developed by National Payments Corporation of India and regulated by the Reserve Bank of India. In the year 2016 this revolutionary transactions system was started. This system makes funds transfer available 24 hours, 365 days unlike other internet banking systems. There are approximately 50 apps and more than 60 banks supporting the transaction system. In the post-demonetization India, this system played a significant role. In the future, with the help of UPI, banking is expected to become more “open.”

Block chain Technology

It is known for creep to currency like Bit coin that helps in keeping track of transactions in a secure and verifiable way. Talking about security in banking institutions, block chain will surely disrupt banks by improving security, saving money and improving customer experience. As block chains are highly secure and easy to operate, it can be used for promoting transparency during payments & currency exchange in banking. Block chain acts as a decentralized database and helps in protecting customers’ personal and financial data by storing all the information about real-time payments & profile details on multiple block chain servers. This resolves issues like fraud detection and cyber attack prevention. The need for third parties will be removed in the loans and credit system using block chain making it more secure to borrow money and reduce interest rates. This technology works on the principles of computer science, data structures and cryptography and is the core component of crypto currency, is said to be the future of banking and financial services globally.

Artificial Intelligence (AI)

Several private and nationalized banks in India have started to adopt chat bots or Artificial intelligence robots for assistance in customer support services. In the recent times, the use of this technology is at an emerging stage and evolution of these chat bots is not too far away. Usage of chat bots is among the many emerging trends in the Indian banking sector that is expected to grow. Banks have benefitted enormously by adopting newer technologies like AI resulting in lower costs and more revenue through multiple channels. A report from Business Insider Intelligence says the average estimated cost savings for banks using AI is $447 billion by 2023. Let's find out banks are using AI! It is mainly used to streamline customer experiences with robots and chat bots. One common example is using AI to facilitate mobile banking enabling customers to get 24/7 access for any banking operations.

Cloud Banking

Cloud technology has taken the world by priority. It seems the technology will soon find its way in the banking and financial services sector in India. Cloud computing will improve and organize banking and financial activities. Use of cloud-based technology means improved flexibility and scalability, increased efficiency, easier integration of newer technologies and applications, faster services and solutions, and improved data security. In addition, the banks will not have to invest in expensive hardware and software as updating the information is easier on cloud-based models.

Improving Customer Service

In the year 2020 bankers will have to find innovative ways to attract customers and more significantly improve their customer service. Bankers are already introducing new concepts like customer relationship management, customer delight, customer experience in order to attract the customers, better they adopt the same. Customers expect banking should be as seamless as booking a cab on Umber and ordering food on Swingy. Most of the banks are trying hard to build innovative UI and UX for their mobile apps. In 2020, retail banking will be driven by customer service.

Innovations in 2020

Banking and the financial sector is the flag bearer of technological innovations. From payment transfer to obtaining the loans is quite easy on mobile apps today. In 2020, tech innovation in banking will significantly focus on voice and video banking. Currently, bots are being used to serve the customers but they are still not up to the mark. Experts believe most of the technologies will mature in 2020. Especially on the technology front, Open API will be well accepted in the banking sector in 2020. Also, Data and Analytics, Artificial Intelligence, Cognitive Technology, Block chain Technology, Robotics Process Automation will be widely accepted by banks and financial institutions.

Collaboration and partnerships

Fin Techs made a big difference in banking and finance space. Initially, there was a fear that in Techs will eat banks' lunch. But gradually Fin Techs have begun partnering with banks. Almost all the inks have partnered with Fin Techs. Fin Techs are bringing in the innovation that banks couldn't. In 2020 banks will collaborate and partner with market forces starting from Fin Techs to E-commerce players for different segments of their businesses.

Regulations and **Cyber security**

RBI has issued guidelines for regulatory Sandbox and 'on tap license' and payments. In 2020, new companies will enter payment, small finance bank, and Fitch space. Regulators' agenda is last-mile connectivity and financial inclusion. Considering the Fraud at PMC bank, RBI has also decided to keep a watch on UCBs. Europe' challenger bank model and Neo banks like Xinja and N26 are rising. RBI may think about it.

Banking Jobs

Job market is hit by the economic slowdown largely but jobs in the banking sector will remain intact. In 2020 thousands of PSB employees will retire and new positions will be opened up. Also, private banks such as Axis bank, HDFC bank are expanding aggressively and will have new positions to fill up. Along with the routine positions, banks are also hiring aggressively for data scientists, AI engineers, RPA experts, etc.

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

Brief about the Bank Merger List 2019-2020

Union Finance Minister Normal Sitharaman on 30th August 2019 had announced the consolidation of state-owned banks (PSBs) in which 10 PSBs being merged to form 4 bigger lenders to strengthen the Banking sector struggling with a bad-loan. The move was aimed at clean up of the Bank Balance Sheets and creating lenders of global scale that can support the economy's surge to $5 trillion by 024. "Having done two rounds of bank consolidation earlier, this is what we want to do for a robust banking system and a $5-trillion economy. We are trying to build next-generation banks, big banks with the capacity to enhance credit," FM Sitharaman said. The key factors for the mergers were Technological platform, Customer reach, Cultural similarities, and Competitiveness, Finance Secretary Rajiv Kumar added.

List of Bank Mergers in India

Acquiring Bank	Acquired Bank	Year of Acquisition
Indian Bank	Allahabad Bank	August 2019
Union Bank	Andhra Bank and Corporation Bank	August 2019
Canara Bank	Syndicate Bank	August 2019
Punjab National Bank	Oriental Bank of Commerce and United Bank of India	August 2019
Bank of Baroda	Vijaya Bank and Dena Bank	April 2019
Canara Bank	UCO Bank, Syndicate Bank and Indian Overseas Bank	-
Bank of India	Andhra Bank, Bank of Maharashtra.	-
Punjab National Bank	Oriental Bank of Commerce, Alhabad Bank, Corporation Bank, Indian Bank	-
State Bank of India	Bharatiya Mahila Bank, State Bank of Bikaner and Jaipur, SBH, State Bank of Mysore, State Bank of Patiala, State Bank of Travancore,	2017
Kotak Mahindra Bank	Ing Vysya Bank	2014
Icici Bank	Bank of Rajasthan	2010
Hdfc Bank	Cnturian Bank of Punjab	2008
Indian overseas Bank	Bharath Overseas Bank	2007
Federal Bank	Ganesh Bank of kurandwad	2006
Industrial development bank of India	United Western Bank	2006
Centurial Bank of punjab	Lord Krishna Bank	2007
Icici Bank	Sngli Bank	2006
Bank of punjab	Centurian Bank	2005
IDBI	IDBI Bank Ltd	2004
Bank of baroda	South Gujrath Local area bank	2004
Oriental bank of commerce	Global Trust Bank	2004
Punjab National bank	Nedugad Bank Ltd	2003
ICICI bank	ICICI ltd	2002
Bankof baroda	Banarus State Ltd Bank	-
ICICI Bank	Bank of Madhura	2001

HDFC Bank	Times Bank ltd	2000
Bank of Baroda	Bareli co operative ltd	1999
Union bank of India	Sikkim Bank Ltd	-
Oriental bank of Commerce	Bari doad Bank ltd	1997
Oriental bank of Commerce	Punjab co operative ltd	1996
State bank of India	Kashinath State Bank	1995
Bank of India	Bank of Karad Ltd	1994
Punjab National bank	New Bank of India	1993

Source: p*ublished on Wednesday, September 11, 2019 Insiya*

Advantages and Disadvantages in the Banking Mergers

The move was aimed at creating next-generation banks with a strong national presence and global outreach accompanied with enhanced capacity to increase credit to the various important sectors of the economy.

Advantages	Disadvantages
▪ Economies of Scale and Scope ▪ Increase Efficiency and Performance ▪ Strategic Integration ▪ Reduce the ATM charges ▪ large customer base ▪ Diversification of losses ▪ Diversification of profits ▪ Market Leadership ▪ Growth and Development ▪ Reduces the cost of operation. ▪ financial inclusion ▪ Expanding geographical reach	▪ NPA and risk management ▪ Acquiring weaker banks. ▪ Demographical imbalances. ▪ Merger destroys the idea of decentralization ▪ Synergy and Risk ▪ Delay in decision making ▪ No of Banks reduced ▪ Monopoly in Banking system ▪ No of branches reduced ▪ Heavy traffic in the banks

Major Challenges and Issues Faced by the Banks

- *Managing Cultural Differences,*
- *Managing Manpower and*
- *Branch Rationalization*
- *Technological Integration*
- *Making Geographically Compatible Banks*
- Phishing Fraud
- Benefits through misconduct
- Fake KYC
- manipulations by authorized user
- SMS-based OTP
- Technology gap among private and public sector banks
- Lack of autonomy in HRM policies, especially for public sector banks
- Lack of accountability

Conclusion

The main objective of banking sector reforms is to promote a diversified, efficient and competitive financial system with the ultimate goal of improving the allocate efficiency of resources through operational flexibility, improved financial viability and institutional strengthening. The banks are following the different types of strategies to satisfy the customer’s needs and solve the problems without wasting their valuable times. Most of the

Private and International banks are following the customer delight concept in order to attract and hold the customers for the long term periods by adopting the client relationship strategies and targeting the high profit accounts. There is a need for enhanced cyber risk assessment framework and testing methodology to continuously detect and protect against evolving cyber threats. While being secure is more important than ever, there is a need to also be constantly vigilant and resilient in face of evolving cyber threats.

References

1. Grabner-Kräuter, S. & Faullant, S. (2008). Consumer acceptance of internet banking: The influence of internet trust". International Journal of Bank Marketing, 26 7), 483–504.
2. Sobhojit Benerjee and Reena Ray, "IT in Banks – Strategic Issues", The ICFAI University, Press 2005, PP. 150-157
3. P.Shivarama Prasad, "Is ATM Cost Effective?", IBA Bulletin, July 2005.
4. India Banking Sector Report (2014) Presentation Transcript
5. Financial Stability board " Artificial Intelligence and Machine learning in Financial Services", Nov 1 , 2017
6. Thomson Reuters " Cost of compliance report 2018"
7. Gieom "Intelligent operations in Banking Industry" Jan 1 , 2019