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Formidable Challenges Facing by the Banking Sector in India

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Abstract:- The Indian banking and financial system have come a long way since its early days. As of 2022, the total assets across all banking sectors (public and private banking) crossed $2.67 trillion. India has one of the world's largest retail banking and financial services institutions - with 12 public sector banks, 22 private banks, 46 foreign banks, 56 regional rural banks, 1485 urban cooperative banks, and 96000+ rural cooperative banks, along with other credit institutions.

The banking industry is undergoing a radical shift, one driven by new competition from FinTechs, changing business models, mounting regulation and compliance pressures, and disruptive technologies. The emergence of FinTech/non-bank startups is changing the competitive landscape in financial services, forcing traditional institutions to rethink the way they do business. As data breaches become prevalent and privacy concerns intensify, regulatory and compliance requirements become more restrictive as a result. And, if all of that wasn't enough, customer demands are evolving as consumers seek round-the-clock personalized service.

Banking sector of India is one of the fastest growing sectors and helps in sustaining economic growth of the country. The banks are the lifeline of our economy and play a crucial role in the development of the country. In the present scenario banks are facing lots of challenges because of inflation, denominations of currency notes, frequently changing bank rates policy and because of these challenges there is an adverse effect on the growth of the banks as well as on the growth of the country. The economic reforms have also produced a new and efficient customer who belongs to middle class and new mix of players like public sector units, private banks, and foreign bank. The emerging competition has generated new expectations from the existing and the new customers. The biggest opportunity of the Indian banking system today is the generation of new consumers and also to motivate them to invest their money in banking system in the form of Small Investment Plan(SIP), Recurring deposit, Fixed deposits, Mutual funds etc. But because of upcoming challenges the banking system is like, has been stopped as no new customer are generated and the long standing customers are also pulling their hands back from the investment previously done. The basic objective behind writing this paper is to study the challenges being faced by the banking sector of India like decrease in the deposits but increase in the withdrawals which results in the decrease of money in the banks and in the economy.

***Keywords**: Deposits and withdrawals, Economy and Lifestyle.*

I. INTRODUCTION

Bank is a place where deposits and withdrawn of money takes place. People use to keep their savings in the bank and receive interest. Banks use to reinvest this money in some other investments like share market or other financial instruments and make money from it out of it. Banks also provide loans to the customers by charging some interest. On the other hand banks also keep the asset of the customer as if in case he becomes a defaulter, The Reserve Bank of India is the (Central bank of our country) and frames the policies which are to be followed by other banks. The Banking Regulation Act, 1949 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. Banks can take money from the central bank as and when needed by paying interest to them.

II. LITERATURE REVIEW

According to Kumar (2006) Recently an another revolution in the banking sector is the upcoming of Internet banking. The customer can easily access their account from any corner of the world with the added benefit of fund transfer facility. Internet banking is considered to be more cost effective as compared to Automatic teller machine (ATM) for banks. Through Internet banking customers can take facilities like - Payment of electricity bills, insurance premium, booking railway tickets etc.

According to RBI Act (2001), with the emergence of Personal Computers, facility of Internet and World Wide Web banks are using internet facility for delivering their products and services. This type of banking is referred to as "Internet banking", although the range of products and services offered by banks vary widely both in their content and composure.

In the words of B. Janki (2002) introduces that the employee's productivity is affected by the technology rapidly. Public sector banks in India needs to improve their efficiency and services being provided to customers. The use of new technology will serve the customers effectively

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by providing value added services and will also help in strengthening risk management.

III. METHODOLOGY

This paper is the outcome of a secondary data in context with the challenges being faced by the Indian Banking Sector. The data is descriptive in nature. The data has been collected from newspapers, journals, magazines, research papers, newspapers, news channels and websites.

IV. OBJECTIVES

- To know the reasons of decrease in the number of transactions
- To know about the fluctuations in Bank rates
- To study the current position of investments being done by the customers in SIP, Mutual funds and Non Performing Assets.

➢ *Reasons for decrease in the number of transactions because of frequent fluctuations in Bank rates*

Bank rates are those rates which are decided by the Central Bank of India i.e. Reserve Bank of India. These rates fluctuates as per demand and supply or we can say as per the Inflation or Deflation in the market. Some of the important rates are mentioned here and

- Repo Rate: When the commercial banks or any financial institution within the country faces any financial crisis they borrow money from the Reserve Bank of India. RBI charges some interest from the commercial banks on behalf of the money given and the rate at which the money is given is known as Repo Rate. It is also known as Repurchase Rate.
- On 4th October 2019 the Repo rate was 5.15% and now that is Feb. 2023 it has been fallen down to 6.50% so that the banks can work smoothly and there will proper flow of money.
- Reverse Repo Rate: It is the rate at which the Commercial banks provide money to the RBI. It is done in two cases- when RBI is in need of money or facing any financial crunch or when the commercial banks wants to keep their money secure and want to earn interest. Reverse Repo Rate is always lesser than the Repo rate.
- The Reverse Repo Rate was 5.50% on 6 June 2019 and now it is 4% 3.35%. It is decreased so that proper liquidity can be maintained with the RBI too.
- Marginal Standing Facility Rate (MSF): When banks borrow money from RBI against their government securities or when the bank is in some critical situation or is in emergency of money they move to MSF. The Marginal Standing Facility (MSF) Rate last witnessed a change in its level on8thFeb. 2023.it is 6.75%
- Bank Rate: Bank rate is the rate of interest being charged by the RBI against the loans given to commercial banks. Bank rate is mostly higher than Repo Rate. When banks pays higher rate of interest to Central bank they charge higher rates from customers also. It can also be said that the lending rates also increases along with the increase in bank rates. Bank rate is a powerful tool which is used by the RBI to control liquidity and money supply in the market. 6.75% is the current bank rate as announced on. 8th Feb. 2023
- Cash Reserve Ratio (CRR): Commercial banks are also supposed to keep some percentage of deposits with them so that working of banks goes smoothly. The percentage of amount being kept with them is called Cash Reserve Ratio and it is also known as liquid cash. The rate CRR is decided by the RBI. The Cash Reserve Ratio has been from4.% to 4.5% .This massive reduction indicates that now banks will have to keep a smaller amount of its reserves with the central bank. This, in turn may be used by banks to make more funds available in the economy and for the people.
- Savings Deposit Rate: The interest which the accountholder receives on his saving account deposits is known as Saving Deposit Rate. The new Savings Deposit Rate as set by the RBI is in the range of 4.00% to 6%
- Base Rate: The Central Bank of India decides a minimum rate below which banks in India are not allowed to lend money to their customers and this rate is known as Base rate. It is the minimum rate of interest the banks are supposed to charge from their customers. The current Base Rate as fixed by RBI is in the range of.w.e.f. 09 Feb. 2023 8.65% - 9.40 %

➢ *Current position of investments being done by the customers in SIP, Mutual funds and Public Provident Fund*

Systematic Investment Plan (SIP) is an investment plan being offered by banks in which a fixed amount is debited by the investor in bank accounts. The amount can be invested weekly, monthly or quarterly. Certain number of units is allocated to the customers as per the amount invested. SIP's are flexible as the amount invested can be increased or decreased as per the need or even the investor may stop investing in it. Basically, it is a profit making scheme when done for long term but today because of Covid19 the amount invested has gone very down. It is because the prices of units have gone very low because of which amount invested has also decreased.

Mutual funds are a scheme of direct investment in securities by customers through bank. It is a very good scheme of making money when done with full analysis. It is totally dependent on the market bulls and bears situation. When the market situation is good the amount invested in mutual funds will increase and when poor the value of invested amount also decreases. Covid19 has made the market condition very poor because of which the amount invested in mutual funds by various customers has gone down.

Non Performing Assets is a loan that is in default or may result in default.. Today when the people are unable to fulfil their daily needs how it can be expected from them to pay the loan. This will result in loss of economy too.

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V. FINDINGS AND CONCLUSION

Banking sector has to face lots of problem. It is very well said that "Money Speaks". The investment being done in SIP'S or mutual funds will be stopped for some time. This paper discusses the various challenges like fluctuations in bank rates, decrease in the number of transactions, growth in banking sector and effects in investment section. Banks are making efforts to combat the competition. The competition from global banks Covid19 has compelled the banks to rethink on their policies and strategies.

It can be suggested that Repo rate and Reverse repo rate has been decreased so that Central bank and Commercial banks can maintain liquidity in the banks up to certain extent.

It can be concluded that the biggest challenge for banking industry is to serve the mass market of India. Customers have shifted their focus from savings to fulfilling their daily necessity needs. To be successful the basic requirement is to understand the customer's wants. In order to diminish above mentioned challenges Indian banks must cut their cost of their services. It can be said that as time passes the banking sector will also grow. When the market will rise definitely the amount invested by banks will also increase.

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