

An Insight in to Banking Sector's Challenges in Current Scenario

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Abstract: *Role of banking system is vital for any nation's economy and prosperity. Banking system has gone through various phases in India. With dynamic environment in trade and commerce at global level, banking system also went through substantial transformation. Globalization, wider use of technology, financial liberalization has resulted in to a new phase for banking system. However these new opportunities have also bent various challenges for banking sector. This study aims to study current challenges of banking system.*

Keywords: Banking system, globalization, use of technology, challenges.

1. Introduction

Finance and banking is the heart of trade, commerce and industry. With current position of banking system it has become very vital for development of economy and country. In India banking sector has gone through economic slowdown and global developments, which resulted in to major transformation of banking system. It has forced banks to consolidate their operations, re - adjust their focus and strive to strengthen their balance sheets. With the introduction of Globalization Banking Sector in India is changing with advancement of technology, financial liberalization with entry of new private and foreign banks, and regulatory changes in the corporate sector. With such changes Indian banking industry has opted various reforms like adoption of the best practices in accounting, internationally accepted prudential norms, better disclosures and transparency, corporate governance and risk management. The objective of the study is to analyse the Indian banking sector in current scenario.

Structure of Banking in India

As per Section 5 (b) of the Banking Regulation Act 1949, "Banking" means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft, order or otherwise. "All banks which are included in the Second Schedule to the Reserve Bank of India Act, 1934 are scheduled banks. These banks comprise Scheduled Commercial Banks and Scheduled Cooperative Banks. Scheduled Commercial Banks in India are categorized into five different groups according to their ownership or nature of operation. These bank groups are:

- 1) State Bank of India and its Associates,
- 2) Nationalized Banks,
- 3) Regional Rural Banks,
- 4) Foreign Banks and
- 5) Other Indian Scheduled Commercial Banks (in the private sector).

- Various challenges of Banking Sector: Increased number of banking frauds, Non Performing Assets, Adoption of technology at various levels in banking operations, throat

cut competition are some burning challenges which are faced by banking sector.

What is Fraud?

Fraud is a type of criminal activity, defined as: 'abuse of position, or false representation, or prejudicing someone's rights for personal gain'.

In simple words fraud is an act of deception intended for personal gain or to cause a loss to another party.

The general criminal offence of fraud can include:

- Deception whereby someone knowingly makes false representation
- Or they fail to disclose information
- Or they abuse a position.

Types of Frauds in banking sector:

Electronic fraud, Identity theft, Credit/Debit card fraud, Cheque fraud are some frequent frauds in banking sector. Bank deposits and transactions of, Inter - Branch Accounting are most fraud prone areas in banking sector.

2. Literature Review

- (Sharma M., (2018)) reported in his article in Business Today that according to recent RBI report a huge amount of 41, 167 crore is looted from banking sector in 2017 - 18, which was 23, 933 crore in 2016 - 17, which reflects a sharp rise of 72 per cent over the previous fiscal year. According to RBI report total 5, 917 fraud incidents were reported in various banking operations in the year. Of this, maximum 2, 526 were advances related cases, while 2, 059 were cyber frauds. The report also mentioned that frauds related to off - balance sheet operations, foreign exchange transactions, deposit accounts and cyber - activity have taken the centre stage.
- (Dr. S. Vijaykumar, 2017) the author found that along with growth of Indian banking system in size, complexity will also increase. The study also called banking system an important agent of economic growth and merger of different segments of the financial sector. It also revealed that future of Indian banking depends not only by

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internal dynamics but also by global trends in the financial sectors.

- (KOUNDAL, 2012) The author aimed to study the comparative performance of public sector, old private sector banks, new private sector banks and foreign sector banks. It also aimed to study the challenges and opportunities of public sector banks. Ratio Analysis is used as a tool for performance analysis. The study also revealed that banking sector is undergoing favourable effects due to adoption of various reforms. The study also confirmed its positive effect on profitability of the public sector banks. However in comparison with foreign and private sector banks, it is less. The study also mentioned about various challenges like increase in competition, customer - orientation, wider use of technology, management of NPAs, Human resource disputes, Political interference etc. The study also found that it is vital for banking sector to work on above challenges in order to improve performance in current competitive scenario.
- (Dr. Krishna A. Goyal, February 2012) the study revealed that although liberalization era has resulted in to positive growth of banking sector, but has also created challenges for banking sector. The study also mentioned about various challenges and opportunities like rural market, transparency, customer expectations, management of risks, and growth in banking sector, human factor, global banking, environmental concern, social, ethical issues, and employee and customer retentions. The study also stressed upon competition from global banks and technological innovation, on which current banking sector should reframe policies.

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3. Conclusion

On the basis of earlier research it is clear that banking sector is backbone of economy. However the study also observed that in post liberalisation era banking sector has grown to some extent but it is also facing challenges like increase in competition, customer - orientation, wider use of technology, management of NPAs, Human resource disputes, Political interference etc. The study also pin pointed on rigorous efforts to be taken by banking sector in framing policies to handle stress created by global competition and technological innovation. The study also revealed increasing rate of occurrence of banking frauds. Some of these frauds were related to off - balance sheet operations, foreign exchange transactions, deposit accounts and cyber - activity.

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