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Current Situation and Challenges in Indian Banking Sector

A Santhosh[1], Abhishek G[2], Adwaid Rajan[3], Akshay Jayaprakash Hegde[4], Amit Prasad Agrawal[5], Dr. Mansi Kukreja[6]
[6]*Professor, CMS Business School Jain (Deemed-to-be University)Bengaluru.*

Abstract: The Indian banking sector is facing several challenges due to the rapidly changing financial environment. The key issues include the high level of Non-Performing Assets (NPAs), increasing competition from fintech companies and digital payment platforms, difficulty in meeting capital adequacy requirements, concerns about governance and risk management, and challenges in Asset Liability Management (ALM).

Addressing these challenges is critical for the Indian banking sector to remain competitive and continue playing a crucial role in the country's economy. One of the largest in the world and essential to the nation's economy is the Indian banking sector. However, it is currently facing several challenges due to the rapidly changing financial environment. Here are some of the key issues and challenges faced by the Indian banking sector:

Non-Performing Assets (NPAs): The high level of NPAs, or bad loans, is one of the main problems

Indian banks face. The gross NPA ratio of Indian banks, according to the Reserve Bank of India (RBI), was 7.5% in March 2021. The profitability and capital sufficiency of banks have been under intense strain as a result of this is digital disruption.The traditional banking sector has been impacted by the growth of fintech businesses and digital payment platforms. These new competitors, who can provide customers with speedier, more convenient, and less expensive services, are putting pressure on Indian banks.

Capital Adequacy: Indian banks need to maintain a certain level of capital adequacy as per the RBI guidelines. However, many banks are struggling to meet these requirements due to their high NPAs and low profitability. This is making it difficult for them to raise capital and expand their business.

Keywords: Asset Liability Management (ALM), Capital Adequacy and Non-Performing Assets (NPAs)

I. INTRODUCTION

The banking sector is an essential component of the Indian economy, providing financial services that support economic growth and development. However, the sector is currently facing several challenges that are impacting its ability to operate effectively. The Indian financial environment is rapidly changing, with the rise of digital payment platforms and fintech companies disrupting traditional banking practices. As a result, banks are facing increased competition, and traditional revenue streams are being challenged. Additionally, the high level of Non-Performing Assets

(NPAs) or bad loans, capital adequacy, governance and risk management, and Asset-Liability Management (ALM) are also major issues that the Indian banking sector is currently grappling with.

The high level of NPAs has put significant pressure on the profitability and capital adequacy of banks. The difficulty in meeting capital adequacy requirements is making it harder for banks to raise capital and expand their business. Moreover, concerns about governance and risk management have raised questions about the effectiveness of these practices in ensuring the stability of the banking sector. ALM is another critical issue as banks need to manage their assets and liabilities effectively to ensure sufficient liquidity to meet their obligations.

To address these challenges, the Indian banking sector needs to adapt and innovate. Embracing new technologies and digital transformation can help banks stay relevant and competitive in the rapidly changing financial environment. Moreover, there is a need for banks to improve their risk management practices and governance frameworks to prevent fraud and lapses. Additionally, addressing the NPA issue requires a concerted effort by the government and the banking sector to address underlying issues like infrastructure, regulatory reforms, and judicial reforms.

In conclusion, the Indian banking sector faces significant challenges that require strategic solutions and collaboration between stakeholders. By addressing these challenges, the banking sector can continue to play a crucial role in the country's economic growth and development.

II. LITERATURE REVIEW

(Bobade, 2020), in her study of "Effect of Covid 19 in Indian Banking sector" found that after covid 19 many reform measures were applied to Indian Banking Industry. After covid 19 the Indian banks were severely impacted by high NPA as the debts were not collected. Banks are formed with primary aim of making the profit through loans but due to covid the same aim impacted the banks negatively. Many businesses that took the loan from banks were closed so that they couldn't pay back their debt. So, these were some of the prominent problems.

(Kumar, 2019) conducted his study on title "Empirical Assessment of Sustainable Banking Issues in the Indian Banking Sector" and looked at the most important problems regarding sustainable banking in India. According to the study, the banks' inability to design and carry out sustainable banking initiatives is primarily hampered by high adoption costs and the lack of a unified sustainable banking policy. Similarly, the majority of respondents expressed involvement with regulators through the formation of a unified sustainable banking practices was the best measure for the overall development of banking industry.

(Agrawala & Agrawala, 2019) through their study of "A critical review of Non-Performing Assets in the Indian Banking Industry" found very problematic state of Indian Banking Industry. The high NPA had serious impact for all the banks irrespective of their size or reputation. As the compliance of requirement set by the regulator to set aside the money to cover for the bad assets, the profit margin of banks was reduced. It ultimately impacts the shareholders of the bank and the aim of wealth maximization of banks will not be met. Data provided by the RBI indicated that the NPA growth rate was in a phase of decline, which was a positive trend. But much work was remained to be done.

(Singh, 2016) in his study on "Frauds in the Indian Banking Industry" found that credit default frauds carried significant weightage in banking related frauds. Frauds may be primarily caused by inadequate top management oversight, flawed employee incentive systems, collusion between various stake holders, a lack of effective regulatory systems, inadequate fraud detection technology, unawareness and improper coordination among various banks in India and abroad. Some of the main causes of frauds and NPAs have been attributed to systemic flaws and delays in legal reporting procedures.

(Pandey, 2019) in his study "Ethics in Indian Banking Industry: Issues and Challenges" found that ethics related challenges in the Indian banking sector, particularly in the loaning division, were getting better. In order to address these issues, government intervention needs to be given more consideration so that customers can actually benefit from government programs, which can also contribute to the general growth and development of the individual, the state, and the economy. Numerous privacy-related issues have been examined, clarified with the help of examples, and the professional, moral, legal, and social obligations in the Indian banking system have also been covered.

Last but not least, unethical marketing tactics and behavior might cause customers to have a bad opinion of financial services, which could lead to less money being sent through financial systems, which is bad for their health.

(Koju, 2018) in her study of "Does Banking management affect credit risk? Evidence from Indian Banking System", show that large banks and strong capital requirements do not always control problem loans. Additionally, the results point to the necessity of raising quality of ongoing banking regulation to raise credit quality.

The net findings supported the notion that internal factors, rather than external factors, primarily determine credit quality in the banking sector. It means that the regulators should supervise and monitor the actions of management too and not just only the financial indicators of bank to improve banking quality.

(Malpani, 2016) through her study "Non-Performing Assets of Indian Banking System and its Impact on the Economy" found that NPA had positive correlation with profitability and the advances which is bad because of bank mismanagement. Positive correlation between NPA and earnings is a result of banks' poor client selection. Due to a lack of funds brought on by NPA, the bank cannot lend money to new customers.

According to the government, the recent slowdown in National growth, the gradual recovery of the world financial system and the ongoing unpredictability of the global markets are the key causes of the rise in non-performing assets
(NPAs). These factors have led to fewer exports of a variety of goods, including textiles and leather.

(Harralaya, 2021) in his study of "Performance affecting factors of Indian banking industry: an empirical analysis", concluded that CAR, net profit, return on advances, ROI, investment-deposit ratio, CD ratio are the main variables that affect a bank's performance in this industry. They are all positively correlated with return on equity. Thus, these factors influence performance of the banking very highly. Indian banking sector should make loans available to regular people more transparent. It would be beneficial to boost the general public's confidence in the financial industry.

III. OBJECTIVE

1) To identify the key themes and issues related to the financial environment and the challenges faced by the banking sector in India
2) To examine current trends and conditions in the Indian banking industry.
3) Evaluate the banking industry's progress in India.
4) To assess how the performance of the Indian banking industry is affected by trends and events in the global economy.

IV. RESEARCH METHODOLOGY

This study intends to look into the current financial situation in India as well as the problems and difficulties the banking industry is currently dealing with. The study utilized a secondary data analysis method, where existing data were collected and analysed

1) *Data Collection:* The study collected secondary data from various sources, such as academic journals, government reports, industry reports, and news articles. The data were collected using a systematic approach, where relevant keywords were used to search for relevant literature in various databases
2) *Data Analysis:* The information gathered was studied through content analysis, where it was divided into themes and subthemes. The themes and subthemes were identified based on the data and objectives of the study. The analysis involved identifying patterns, trends, and gaps in the data.

V. DATA ANALYSIS

The Indian banking industry plays a significant role in the nation's financial system. It is a crucial tool for economic expansion, offering credit and financial services to people, enterprises, and the government. However, the industry is confronted with a number of difficulties and problems that have emerged for a number of reasons, such as economic slowdowns, changes in government regulations, and disruptions in the technology sector. With a focus on the difficulties the banking industry is currently facing, this research seeks to analyze the current financial climate in India.

The COVID-19 pandemic, which has disrupted the economy and increased unemployment and inflation, has had a huge influence on India's financial climate. From 11.3% in 2019–20 to 7.7% in 2020–21, the country's GDP growth rate decreased. The pandemic also prompted adjustments in regulations, like the Reserve Bank of India's (RBI) announcement of a ban on loan repayments, to lessen the strain on debtors.

1) *Non-Performing Assets (NPAs):* Loans that are not being repaid by borrowers are referred to as NPAs. For numerous years, the Indian banking industry has struggled with significant NPA levels. In September 2020, the gross NPA ratio for SCBs was 7.5%. The pandemic has only made matters worse, and according to the RBI, the ratio will rise to 13.5% by September 2021. The economy is negatively impacted by the high number of NPAs since it reduces banks' capacity to lend and the flow of credit in general.
2) *Liquidity Constraints:* The Indian banking industry has been experiencing liquidity problems as a result of a number of factors, including a slowing economy, rapid credit growth, and poor deposit growth. The RBI has been addressing the problem with a number of actions, such as adding liquidity to the system and lowering the cash reserve ratio (CRR). However, the sector still struggles to meet the economy's demand for credit, especially in areas like MSMEs.
3) *Technological Disruptions:* With the development of digital technologies like mobile banking, internet banking, and digital wallets in recent years, the banking industry has seen substantial upheaval. But this has also led to difficulties, particularly with regard to cybersecurity and data security. In order to reduce the dangers posed by cyber threats including phishing assaults, malware, and ransomware, banks must invest in strong cybersecurity procedures.
4) *Regulatory Challenges:* The Indian banking industry is highly regulated, and banks must adhere to a number of regulations, including capital adequacy ratios, liquidity ratios, and asset quality standards. Since several major banks, including PMC Bank and Yes Bank, collapsed in recent years, the regulatory environment has become stricter. Banks must make sure that they are in conformity with the rules and that they can supply the economy's need for credit.

We examined information from the RBI's Financial Stability Report (FSR) and other sources to comprehend the difficulties the Indian banking industry was facing. The following are some significant findings from the analysis:

Although the RBI has implemented regulatory measures to address the NPA issue, the gross NPA ratio of SCBs increased from 7.5% in September 2020 to 7.8% in December 2020.

As of September 2020, the capital adequacy ratio (CAR) was 15.6%, exceeding the statutory minimum of 11.5%. Although public sector banks (PSBs) had a lower CAR than private sector banks (PSBs), at 13.6%, this suggests that PSBs may have trouble in the future complying with regulatory requirements.

VI. RESULTS

The COVID-19 pandemic's effects are the main cause of the enormous issues the Indian banking sector is currently facing. High levels of non-performing assets (NPAs), liquidity restrictions, disruptions in technology, and regulatory difficulties are some of these difficulties. The RBI has predicted that by September 2021, the gross NPA ratio for SCBs will rise to 13.5% from its September 2020 level of 7.5%. Despite efforts by the RBI to increase system liquidity and reduce the cash reserve ratio (CRR), the industry still finds it difficult to meet the demand for credit in the economy, particularly in areas like MSMEs. Cybersecurity and data security issues are just two examples of the hazards and disruptions brought on by the development of digital technologies. In addition, the sector is heavily regulated, and banks are subject to a number of rules, including capital adequacy requirements, liquidity ratios, and asset quality standards. In conclusion, to meet the economy's demand for credit and overcome these issues, the Indian banking sector must make investments in robust cybersecurity measures and maintain compliance with regulations.

VII. CONCLUSION

This study focuses on India's current financial situation, especially the problems and difficulties the banking industry is now experiencing. The COVID-19 epidemic has had a big influence on the economy, leading to new laws, higher unemployment, and higher costs. The banking sector in India is having difficulties with profitability, risk management, regulatory compliance, and digital transformation, according to data analysis from numerous sources. Low interest rates, more competition, and shifting consumer tastes can all be blamed for banks' deteriorating profitability. With non-performing loans (NPLs) on the rise globally, risk management is now a serious issue. Regulations are changing more frequently, which has made it harder for banks to follow the rules while still being profitable and managing risk. Additionally, the sector is seriously threatened by cybersecurity and digitalization risks

In conclusion, this study illustrates the difficulties and issues that the Indian banking sector is now dealing with and the necessity to deal with them in order to ensure its stability and sustainability. According to the study's findings, the Indian banking sector needs to embrace digital transformation while maintaining profitability, efficient risk management, and compliance with legal requirements. Overall, despite ongoing difficulties, the Indian banking industry is in a strong position to deal with the current financial climate and grow in the years to come.

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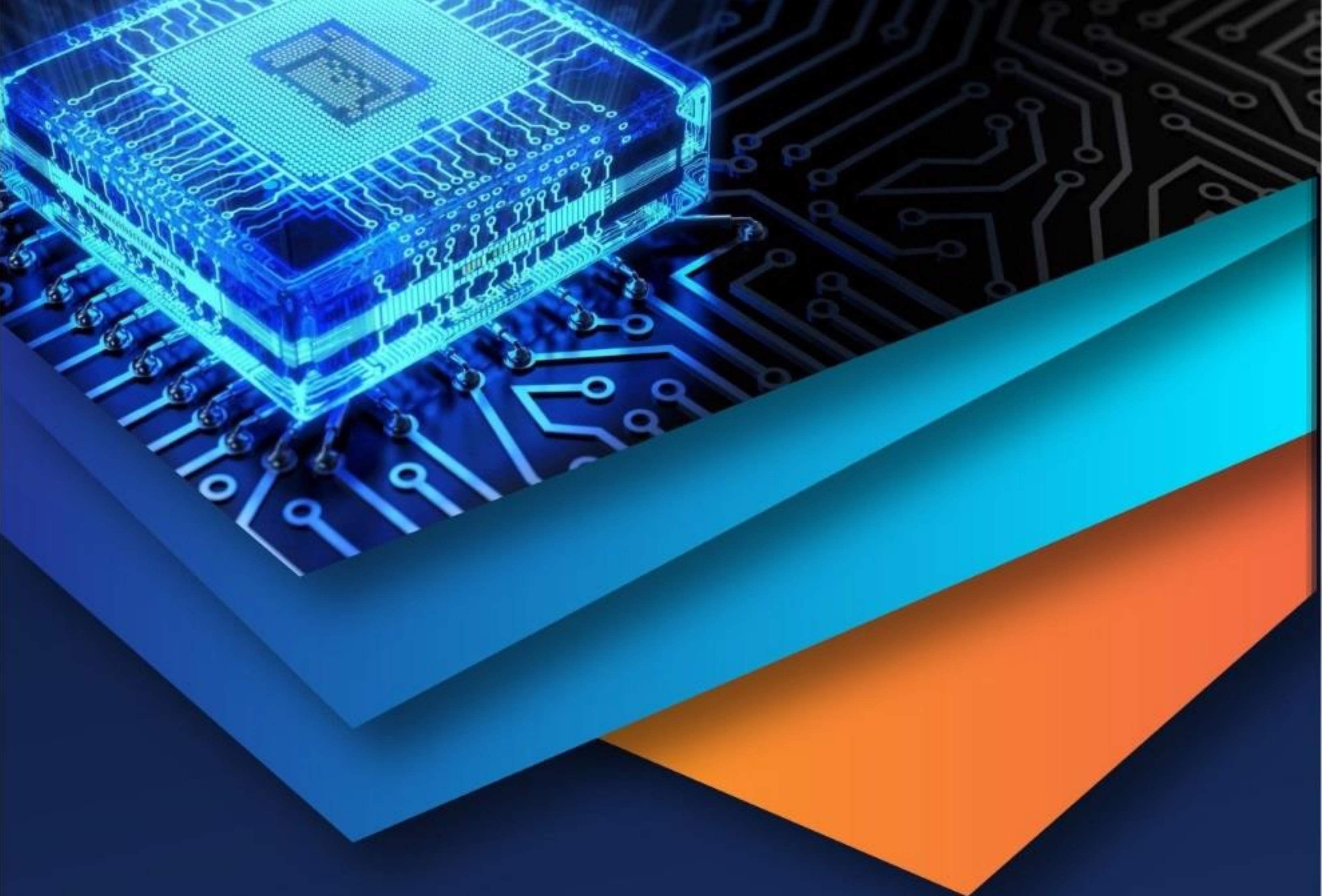

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