Recent Trends in Indian Banking Sector

Today, we are having a fairly well developed banking system with different classes of banks – public sector banks, foreign banks, private sector banks, regional rural banks and co-operative banks. The Reserve Bank of India (RBI) is at the paramount of all the banks.

The RBI's most important goal is to maintain monetary stability (moderate and stable inflation) in India. The RBI uses monetary policy to maintain price stability and an adequate flow of credit. The rates used by RBI to achieve this are the bank rate, repo rate, reverse repo rate and the cash reserve ratio. Reducing inflation has been one of the most important goals for some time.

Growth and diversification in banking sector has transcended limits all over the world. In 1991, the Government opened the doors for foreign banks to start their operations in India and provide their wide range of facilities, thereby providing a strong competition to the domestic banks, and helping the customers in availing the best of the services. The Reserve Bank in its bid to move towards the best international banking practices will further sharpen the prudential norms and strengthen its supervisor mechanism.

There has been considerable innovation and diversification in the business of major commercial banks. Some of them have engaged in the areas of consumer credit, credit cards, merchant banking, internet and phone banking, leasing, mutual funds etc. A few banks have already set up subsidiaries for merchant banking, leasing and mutual funds and many more are in the process of doing so. Some banks have commenced factoring business.

- **Role of Information Technology (IT) and Customer Relationship Management (CRM) in Banking**

  IT plays an important role in the banking sector as it would not only ensure smooth passage of interrelated transactions over the electric medium but will also facilitate complex financial product innovation and product development. The application of IT and e-banking is becoming the order of the day with the banking system heading towards virtual banking.

  Banks, who strongly rely on the merits of 'relationship was banking' as a time tested way of targeting & servicing clients, have readily embraced CRM, with sharp focus on customer centricity, facilitated by the availability of superior technology. CRM, therefore, has become a new mantra in service management, both relationship & information wise.

- **Foreign Direct Investment (FDI) in India**

  - Definition of FDI: Investment made to acquire lasting interest in enterprises operating outside of the economy of the investor.

  - Maximum FDI permitted in Indian private sector banks – 74 percent, under the automatic route which includes Portfolio Investment i.e. FII's and NRI's, Initial Public Issue (IPO), Private Placements, ADR/GDRs; and Acquisition of shares from existing shareholders;

  - Maximum FDI permitted in Indian public / nationalized banks – 20 percent;

- Automatic route is not applicable to transfer of existing shares in a banking company from residents to non-residents. This category of investors require approval of FIPB, followed by “in principle” approval by Exchange Control Department of the RBI.

- The “fair price” for transfer of existing shares is determined by RBI, broadly on the basis of the Securities and Exchange Board of India guidelines for listed shares and erstwhile CCI guidelines for unlisted shares. After receipt of “in principle” approval, the resident seller can receive funds and apply to RBI, for obtaining final permission for transfer of shares.

- A foreign bank or its wholly owned subsidiary regulated by a financial sector regulator in the host country can now invest up to 100% in an Indian private sector bank. This option of 100% FDI will be only available to a regulated wholly owned subsidiary of a foreign bank and not any investment companies.

- Benefits of FDI:

  - ✓ Transfer of technology from overseas countries to the domestic market
  - ✓ Ensure better and improved risk management in the banking sector
  - ✓ Assures better capitalization
  - ✓ Offers financial stability in the banking sector in India.

➢ **Voting Rights of Foreign Investors**

Private Sector Banks	Not more than 10% of the total voting rights of all the shareholders
Nationalized Banks	Not more than 1% of the total voting rights of all the shareholders of the nationalized bank.

➢ **Major challenges faced by banks**

- Increased competition from domestic and international markets;

- Transaction costs of carrying non-performing assets and substandard assets in its books;

- Frequent changes in key policy rates and reserve requirements by the RBI;

- Maintaining sufficient liquidity.

➢ **Conclusion:**

In the days to come, banks are expected to play a very useful role in the economic development and the emerging market will provide ample business opportunities to harness. Human Resources Management is assuming to be of greater importance. As banking in India will become more and more knowledge supported, human capital will emerge as the finest assets of the banking system. Ultimately banking is people and not just figures.

To conclude it all, the banking sector in India is progressing with the increased growth in customer base, due to the newly improved and innovative facilities offered by banks. FDI has

provided a great fillip to the whole of banking sector industry as banks are now competing at a global level.