

An analysis of challenges faced by the banking sector

[Finance](#), [Banking](#)



Introduction

Developed and developing economies depend on banking sector for all the financial transactions, be it government or corporate or even citizen. Banking sectors of many developing countries was recently liberalised. One such country is India. The Indian liberalisation took place due to the ineffectiveness of the banking sector. The liberalisation leads to cut throat competition. India has a huge population and the massive development results in opportunity. In order to compete and survive in this competition there is a need for a strong concrete base with loyal customers. This group of customers can be gained through retention programs. Customer retention in Indian banking sector is proving vital with time. There are recent problems like the financial recession, where the banks can rely only on these customers. Many banks in the Indian sector have already experienced the importance of customer retention and are improving in the customer retention activities by increased investments. Bank of India was the 1st bank to introduce the 1st online banking facility to more than 100-Thousand customers. The most important factor of any firm is the customer. Without customers, a firm cannot do business, as they are the end users of the products. Peter Drucker in his book ' The Practice of Management ' has stated that, ' the customer is the force who decides the business, the production, and the profitability of the firm (Parasuraman et al., 2006).

In today's world customers are regarded as the king with the status equal to The God. They are not just local but they are all over the world. Banking companies in this era do not just concentrate on the local or host country

markets but also the cross border business. For instance ICICI has 25% of its investors who are NRI (ICICI Bank Ltd., 1999). This revolution is due to the major change and development in the field of communication, technologies, privatisation and deregulations in the economies. As a result of this there is a creation of new market and also rise to competition. The competition is intense even for the survival, and this can be met up by only having good customer relationship. The work does not stop at acquiring customers. The real efforts starts after the customer has been acquired, it is crucial for a company to offer them unique products and maintain a friendly relationship and proper communication channel with the customers in order to make sure that the business is not lost. A healthy and long term business relation will provide a great benefit to banks. It is less costly to maintain any relationship with any existing customer. At the same time, a loyal customer will also gain much more benefits in return such as low rate of interest on loans and credit cards. Businesses use the tool of CRM (Customer Relationship Management) to retain their customers in today's business. According to Bejou et al, CRM is a process in which companies identify its profitable customers and then shapes its interaction with the customers in a way that increases the current and future prospective of business. (Bejou et al., 2006).

The Banking sector is facing rapid changes as a result of the economic reform brought about by the Government of India a decade ago (Kamath et al., 2003). This reform is a result of inefficient way of working in the banking systems (Turner and Arun, 2003). As a result of this everything in relation to banking is changing, right from the ownership patterns, the funding its cost

and availability to the prospects of earning. There is a big change in the type of services offered. The reform program also includes the implementation of a prudential approach to bank regulation, which focuses on minimum capital adequacy requirements and supervisory control via on-site and offsite monitoring (Turner and Arun, 2003). Thus there is a feel of control of power, this is a post-modernist view. Apart from all these the banking regulators in India are struggling not because of the slow failure of Indian banks but also due to the rapid growth of the sector. As there is a rapid growth in the Indian banks lending pattern. Apart from this there is a continued increase in the consumer credit card sector. The growth of the Indian companies, their expansion and overseas acquisition is resulting in the rapid growth of corporate banking. The next section is the investment banking which is also increasing at a higher pace. These things are resulting in more and more demand for banking products. Banks like ICICI has been growing at very rapid pace. Its profit growth in the year ended March 2007 is 22% (Bukoveczky, 2007).

There is massive change in this sector in regards to the development caused due to the change or advancement of technology, which has also erased the traditional boundaries of banking and also increased the business geographically. For instance, due to the net banking facilities a customer can view and print its account statement at home and also transfer the money at the same time. There is no need to physically go at the bank. Not only the companies but also the governments are seeking better banking services for their organisational efficiency. SBI has the largest ATM machines; in 1994 it

had 200 which rose to 3400 in 2004 (Joydeep and Renny, 2005). The change in the income levels and the cultural change, in regards to westernised lifestyle are increasing day by day. Indian consumers seek more and more finance and are generating more asset creation. This has led to massive growth in the Indian retail-banking sector. The backbone to serve all these segments of customers is a strong back up of technologies. This offers the bank convenience in managing the retail, corporate and government clients efficiently and effectively (Kamath et al., 2003). In some Indian commercial banks like ICICI, Bank of India the stress is more on relationship building with the existing customers. Bank of India advertises as their main mission is to build relationship beyond banking (Bank of India, 2003). Thus in this excessive competition in the banking sector is seen increasing day by day with the advent of various foreign banks like the Deutsche, Barclays have brought about a revolution in the customer service, since then not only creation of customer but also retention of customer through customer relationship models have taken pace (Sureshchander, Rajendran and Anantharaman, 2003).

Customer retention is a structure of actions carried out by a firm to augment their process, depending upon the positive position of the customers that result in success through customer purchase. Another definition for customer retention stresses more on the firm's commitment in case of customer retention. The companies' processes should enhance, the constructive outline to shape the behaviour of the customers with the existing patterns keeping the future objectives of the customers mind set of business with the

firm. This is to establish the future relationship with the customer. The banking growth became the heart of the economical growth in India (Prasad, Bhide and Ghosh, 2002). These reform brought a massive growth in this sector and also increased the competition by two fold, this has also brought about a huge pressure to the Indian banking sector (Pauchant and Roux-Dufort, 1993).

Challenges for Survival based in different factors of Environment

Each bank need's to provide something which is unique to its customer, so that the customer expectation can be full filled. It's very important for a bank to keep a continues update in their technology. This will help to retain the old customer at the same time attract and upgrade new customers. With the help of new companies which deal in keeping a track and data base of customers, banks can always take advantages. They can use such technology to keep in touch with the customers and help them to achieve satisfaction. Finlay this is what a bank has to deal with. This will help the bank to retain the customer and achieve huge profit at the same time it helps to get new customers with the help of referring. With the use of technology such as Telecom and Internet Access the world is becoming a smaller place to live in, which results in tuff competition. Work done by Parasuraman, Zeithaml, and berry between 1985 – 1988 gave us a new tool called SERVQUAL which gives us an exact graph of what a customer expectation of performance and what has been delivered to them (Parasuraman, Berry and Zeithaml, 1991).

Economic and Market plays a key role in making the profit for the bank. There is a direct pressure on the margin of profit due to ever increasing competitor in the market who may have a strong base in other country and strong brand name also. For instance HSBC and Barclays have strong base in Asia and Europe respectively, thus when they had entered in India they had kept very low margin of profit to cut out competition and enter the market. This move has helped them to grow the customer's up to 120% from 2000 to 2010. This is causing a bad strain on tradition banks that are located within India's geographical boundaries. To react this, now days Indian banks are opening their branches in abroad market like China, Japan, Hong Kong, UK, USA, Canada and other countries. These banks have now reengineered there way of process and have reduced the cost of operation with the use of technology (Howcroft and Durkin, 2003). A drastic reduction of transaction cost has pressured old traditional banks to undergo a change which also deals in ownership of the banks. (Prasad, Bhide and Ghosh, 2002). Economic deregulation in economy has caused free way for banks. Now the other main drawback in traditional Indian banking sector is due to the ownership Government of India owes the most part of banking sector. The Basel Committee on Banking Supervision (1993) argues that government ownership of a bank has the potential to alter the strategies and objectives of the bank as well as the internal structure of governance (Basel Committee on Banking Supervision, 1999). It is suggested that the development of banks can be done by divestment practices in Indian banking sector. (Turner and Arun, 2003). Every bank's need to always consider the important of market they dealing in. For instance, Indian customers always want to get

higher interest rate in their saving account. As a result, banks have to compete against each other in this. Whereas, westerners want better service management instead of higher interest rate.

The Customer data collection plays a significant role in regards to privacy of the customer. International difference in legal framework are a great challenge and treat for global companies seeking to use CRM to tailor and alter the products as per each customer (McKenzie, 2002). The firms in India don't feel comfortable in exchanging the customer data with other companies. Whereas in US, firms have considerable latitude to collect, store and even exchange sell and buy data on individual customers. The use of direct marketing in USA sometime selling of data can cause a huge penalty (Petter and Rogers, 1993). According to most modernist authors, the legal framework has some limitations to the working of the society. Though Indian banking is subjective to severe criticism for its high amount of bad debts and low profit, against this is the glittering contribution to the development and diversification in Indian economy which is witness in the last 3 decades (Prasad, 1997). Banking is no longer regarded as a business dealing with money transactions alone, but it's regarded as a business related to information on financial transaction (Padwal, 1995). Although the Reserve Bank of India, the country's central regulatory is trying to ease the legal framework and is moving towards liberalization and globalization thus helping the nationalized banks to compete against the new foreign banks in the country (Angur, Nataraajan and Jahera, 1997).

Conclusion

The role of society plays an important role in working of the firm. Different value system such as culture, language, religion plays a significant role in person's life style and habit. For instance in Islam, excepting any type of interest in form of money is banned under the religious law. As a result bank, have to keep in mind such a strong point. In India, majority of the people believe in keeping money at their home, and if want to keep it in the banks they will always prefer nationalized banks. This could lead to strong competition and can cause a major failure also.