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# Contemporary Issues and Challenges in Indian Banking Sector

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## ABSTRACT

*The banking industry is one of the foundational areas of the service-based economy and is highly competitive. The banking systems in India are very coordinated. The banking industry in India has seen significant upheaval recently, without possessing the biggest bank in Earth.. This paper's goal is to identify current problems and obstacles facing the Indian banking industry. The research used secondary data. According to the report, the banking industry is most affected by macroeconomic risk/threat, state control of the industry/sector, political meddling, cyber intrusions, technological perils, scams, and corrupt practices among other things.*

**Keywords:** *macroeconomic risk, state control of the industry, political meddling, cyber intrusions.*

## I. INTRODUCTION

Every country's economic progress depends heavily on banks. The life sustenance tool of the economy is the banks. Banks serve more than just institutions; they also serve the fundamental requirements of modern humans. Everyone needs a bank, and bank accounts serve as our identity. The banking system in India is developing and evolving at a very rapid pace, with government initiatives, guidelines, and legislation being implemented every day. The Reserve Bank of India controls the Indian financial system. Recently, banks have become everyday objects utilised by people wherever and at all times. When it comes to quick changes in transactional modes like ATMs, balance inquiries, online banking, m - banking, electronic cheques, electronic financial transactions, credit cards, debit cards, smart cards, and payment banks, bankers have recorded and analysed the needs and happiness of their clients.

## II. CONTEMPORARY ISSUES AND CHALLENGES IN INDIAN BANKING SECTOR<sup>2</sup>

### 1. Macroeconomic Risk/Threat

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<sup>1,2</sup> ML TANNAN – BANKING LAW & PRACTICES IN INDIA(29<sup>TH</sup> EDITION)

2. D. Venugopal. "Indian banking reforms and following a bank economists take." A bank economist's thoughts on current banking problems

3. Press information, press releases, reserve bank of India, and [www.rbi.com](http://www.rbi.com)

Regardless of the fact that several economies have already returned to modest growth, the macroeconomic risk/threat was all nations' participants' primary concern. For bankers, sustained and rising levels of borrowing in the business and consumer sectors of sovereign nations provide the conditions for asset prices to pop in the event of major disruption. Market risk, risk of foreign exchange technical risk, nation risk, and other macroeconomic risks are of particular concern.

## **2. Political Meddling**

Bankers raised concern that legislative authorities that is the government would interfere with banking activities for a variety of reasons, such as strengthening investor protection, producing income during a period of tight budgets, and reestablishing the country's revenue/tax base. The uncertainty surrounding numerous political contexts, including electoral processes only those in India but also in other countries—could lead to increasing intervention with banks management, lending regulations, and policies of taxation, as according to bankers.

## **3. Laws and Regulation**

The laws and regulations governing banking in India are many. The commercial banks are governed by the Indian government and central bank. Bankers were greatly worried about how increased regulatory standards would affect ingenuity, diversification, and their potential to successfully compete against smaller competitors who were not subject to the same level of regulatory oversight.

## **4. Cyber Intrusions and Technological Perils**

Transnational bankers were greatly concerned about outmoded core information technology systems among the most important issues. The inability to make the necessary investments in reliable, flexible systems that may improve mobile and online banking can lead to significant losses while increasing the danger of cyber intrusions. An estimated ninety six percent of Indian transactions are cash-based, but with the increased use of computers, cell phones, and the internet, Indians are turning to digital platforms for their requirements of banking. As a result, cybercrime poses a bigger concern.<sup>3</sup>

## **5. Scams and Corrupt Practices**

A few employees abuse the leeway they provided under the pretence of liberalisation, as

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<sup>3</sup> 1. Concerns and difficulties affecting the Indian banking industry.

2. Boston Consulting Group, SAS, and Plotinoin published a white paper titled "Moving Beyond Compliance: How Banks Should Leverage Risk Technology to Capitalize on Regulatory Reform" in October 2011.

3. Guidelines for gathering and reporting risk data efficiently. Basel Committee on Banking Supervision's final study was published in January 2013.

4. EY's annual report and the FSI report.

evidenced by scams at various commercial , private and public sector banks. These frauds have done serious harm to the reputation of these institutions, which has affected their profitability. The rise in the number of unlawful operation banks is a worry for the banking regulation about group fraud. Concerningly, banks sometimes seem hesitant to disclose these situations, which are aged for two to three years as Non performing assets before being recognised as being fraudulent. The state controlled banks are hugely impacted by the rising number of bad credit/loans or “The Non – Performing Assets”.

#### **6. Risk Mitigation Methodology**

Management of Assets and Liabilities, operational risk mitigation, and risk reporting are additional issues for the banking business. A comprehensive approach to risk mitigation is necessary for the present corporate climate. Individual risk mitigation is not adequate these days. The single segment approach used by Indian banks is being replaced with an organization spreading risk mitigation system. Increased demands are pushing the importance of capacity development to the fore. Over the next few years, banking institutions would be needed to devote a significant amount of funds to this goal.

### **III. CONCLUSION**

This study paper provides a critical analysis of the current issues and challenges that the Indian banking industry is facing. The banking industry targets reduced profit making, rising NPA'S , and a minimal effort to offer investment instruments that are acceptable. In terms of cost reduction, speed, and making quick transactions, banks are benefiting from technological progress and translucent, advanced solutions. However, in recent times, it has become completely obvious that banks are trying to deal with a variety of difficult issues, including cyber intrusions, a lack of adequate security, and server issues. Any advanced or sophisticated economy, where financial inclusion is still a distant goal, is built around banks.

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