



## **Growth of Banking Sector in India: A Collective Study of History and its Operations**

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**ABSTRACT:** No country can have a healthy economy without a sound and effective banking system. The Banks always remain the main participants of the financial system in any country. The Banking sector offers several facilities and opportunities to their customers and, therefore, it should be able to meet the new challenges posed by technology and other internal and external factors. With the establishment of the first Bank in India by British, the Banking sector has made rapid progress in various phrases. Before the establishment of banks, the financial activities were handled by money lenders and individuals and due to that people had to suffer a lot because of ignorance and many other reasons. So as to overcome such problems the organized banking sector was established which was fully regulated by the government. In India, Reserve Bank of India (RBI) is the main governing authority and has been bestowed with extensive powers to work as Central banking authority. The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act 1935. As it is evident that most of Indian population resides in rural areas therefore banking sector had to make a number of reforms in its working in order to survive for its existence. As from the origin of banking sector in India, continuously growth is quite evident. Nowadays Indian banking system is working very efficiently in the country. In this paper, an attempt has been made to know the history and growth of banking sector by dwelling upon its growth in various phases. This paper is a small contribution to the existing vast knowledge of banking industry and will be useful for bankers, Industrialist, policy maker and researchers.

**Keywords:** Nationalization Movement, Liberalization, Banking Structure in India, Government policy, Growth of Banking, Regulations, RBI & functions, IBA & functions, HRM & retention of employees and customers, social, ethical and environmental aspects.

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### **INTRODUCTION**

A bank is a financial institution that provides banking and other financial services to their customers. A bank is generally understood as an institution which provides fundamental banking services such as *accepting deposits* and *providing loans*. But there is also an existence of non-banking institutions that provides certain banking services without meeting the legal definition of a bank.

A banking system is also referred as a system provided by the bank which offers *cash management services for customers* and *reporting the transactions of their accounts and portfolios*, throughout the day. Now with the overgrowing rise of economy in India, the banking system should not only be hassle free but it should also be able to meet the new challenges posed by the technology and any other external and internal factors. For the past three decades, India's banking system has made several outstanding achievements to its credit. The Banks are the main participants of the financial system in India. The Banking sector offers several facilities and opportunities to their customers. All the banks safeguard the money and provide basic facilities such as *loans*, *credit*, and other payment services including *checking accounts*, *money orders*, and *cashier's cheques*. In addition, banks also offer *investment* and *insurance products*.

India cannot have a healthy economy without a sound and effective banking system. The banking system should be hassle free and able to meet the new challenges posed by technology and other factors, both internal and external.

In the past three decades, India's banking system has earned several outstanding achievements to its credit. The most striking is its extensive reach. It is no longer confined to metropolises or cities in India. In fact, Indian banking system has reached even to the remote corners of the country. This is one of the main aspects of India's growth story.

The government's regulation policy for banks has paid rich dividends with the *nationalization of 14 major private banks in 1969*. Banking today has become convenient and instant, with the account holder not having to wait for hours at the bank counter for getting a draft or for withdrawing money from his account.

**1. Need of the Banks:** Before the establishment of banks, the financial activities were handled by money lenders and individuals. At that time the interest rates were very high. Again there were no security of public savings and no uniformity regarding loans. So as to overcome such problems the organized banking sector was established which was fully regulated by the government. The following functions explain the need of the Bank and its importance:

- To provide the security to the savings of customers.
- To control the supply of money and credit.
- To encourage public confidence in the working of the financial system, increase savings speedily and efficiently.
- To avoid focus of financial powers in the hands of a few individuals and institutions.
- To set equal norms and conditions (i.e. rate of interest, period of lending etc) to all types of customers.

**2. History of Banking in India:** The *first bank in India*, though conservative, was *established in 1786*. From 1786 till today, the journey of Indian Banking System can be segregated into three distinct phases:

- Early phase of Indian banks, from 1786 to 1969
- Nationalization of banks and the banking sector reforms, from 1969 to 1991
- New phase of Indian banking system, with the reforms after 1991

**2.1 Phase one:** *Early phase of Indian banks, from 1786 to 1969:* The first bank in India namely, “*General Bank of India*,” was set up in 1786 by the British. Subsequently, two other banks namely “*Bank of Hindustan*” and “*Bengal Bank*” were formed after that. The East India Company established *Bank of Bengal* (1809), *Bank of Bombay* (1840), and *Bank of Madras* (1843) as independent units and called them *Presidency banks*. These three banks were merged in 1920 and the *Imperial Bank of India*, a bank of private shareholders, mostly Europeans, was established. *Allahabad Bank* was established, exclusively by Indians, in 1865. *Punjab National Bank* was set up in 1894 with headquarters in Lahore. Between 1906 and 1913, a number of other banks, i.e., *Bank of India*, *Central Bank of India*, *Bank of Baroda*, *Canara Bank*, *Indian Bank*, and *Bank of Mysore* were set up. *The Reserve Bank of India* came in 1935.

During the first phase, the growth in banking sector was quite slow and banks also experienced periodic failures between 1913 and 1948. There were approximately 1,100 banks in total existing only in India, but most of them were small. This was creating a lot of confusion among people regarding their choices and believes. Therefore, in order to streamline the functioning and activities of commercial banks, the Government of India came up with the *Banking Companies Act, 1949*, which was later on changed to the *Banking Regulation Act, 1949* as per amending *Act of 1965 (Act No. 23 of 1965)*. This act bestowed *The Reserve Bank of India (RBI)* with extensive powers for the supervision of banking in India as the Central banking authority. But still, even after all that improvement in banking industry; the general public had lesser confidence in banks. As an aftermath, deposit mobilization was slow. Moreover, people were more inclined towards Postal department because they believed that the savings bank facility provided by them was comparatively safer, and funds were largely given to traders.

**2.2 Phase two:** *Nationalization of banks and the banking sector reforms, from 1969 to 1991:* After Independence in 1974, the government took major initiatives to reform the banking sector. In 1955,

Indian government nationalized *the Imperial Bank of India* and started offering extensive banking facilities, especially in rural and semi-urban areas. The government constituted the *State Bank of India* and gave it powers to act as the principal agent of the Reserve Bank of India (RBI) and to handle banking transactions of the Union government and state governments all over the country. After that, seven other banks owned by the Princely states were nationalized in 1959 and were made subsidiaries of the State Bank of India. In 1969, 14 commercial banks in the country were nationalized. Subsequently, 07 more banks were nationalized in 1980. As a result, 80 percent of the banking sector in India came under the direct ownership of government.

**2.3 Phase Three:** *New phase of Indian banking system, with periodic reforms after 1991:* This phase is the most important as it introduced many more products and facilities in the banking sector as a part of the reforming process. In 1991, under the chairmanship of *M. Narasimham*, a committee was set up, which worked for the liberalization of banking practices. The result of committee's efforts are quite evident as now, the entire country is flooded with foreign banks and their ATM stations. Now all the banks are more concerned to give a satisfactory service to customers in comparison to the previous times. With the emergence of *phone banking* and *net banking*, the entire system has become more convenient and swift. Now time is given more importance in all money transactions.

**3. Nationalization Movement of Banks:** By the 1960s, the Indian banking industry has emerged as an important tool to facilitate the development of the Indian economy. At the same time, it has also emerged as a large employer, and as a result a debate started concerning about the possibility to nationalize the banking industry. *Indira Gandhi*, the-then Prime Minister of India expressed the intention of the *Government of India (GOI)* in the annual conference of the *All India Congress Meeting* in a paper entitled "*Stray thoughts on Bank Nationalization*". The paper was received with positive enthusiasm. Thereafter, her move was swift and sudden, and the GOI issued an ordinance and nationalized the *14 largest commercial banks* with effect from the midnight of *July 19, 1969*. *Jayaprakash Narayan*, a national leader of India, described the step as a "*Masterstroke of political sagacity*". Within two weeks of the issue of the ordinance, the Parliament passed the *Banking Companies (Acquisition and Transfer of Undertaking) Bill*, and it received the presidential approval on 9 August, 1969.

A second step of nationalization of *6 more commercial banks* followed in 1980. The stated reason for the nationalization was to give the government more control of credit delivery. With the second step of nationalization, the GOI controlled around 91% of the banking business in India. Later on, in the year 1993, the government merged *New Bank of India* with *Punjab National Bank*. It was the only merger between nationalized banks and resulted in the reduction of the number of nationalized banks from 20 to 19. After this, until the 1990s, the nationalized banks grew at a pace of around 4%, closer to the average growth rate of the Indian economy.

**4. Liberalization in Banking Sector:** In the early 1990s, the-then *Narsimha Rao government* embarked on a policy of liberalization, licensing a small number of private banks. The policy came to known as *New Generation tech-savvy banks*, and included *Global Trust Bank* (the first of such new generation banks to be set up), which later on merged with *Oriental Bank of Commerce*, *Axis Bank* (earlier as *UTI Bank*), *ICICI Bank* and *HDFC Bank*. This was a great initiative and along with the rapid growth in the economy of India, it revolutionized the banking sector which witnessed rapid growth with strong contribution from all the three sectors of banks, namely, *government banks*, *private banks* and *foreign banks*. The next stage for the Indian banking has been setup with the proposed relaxation in the norms for *Foreign Direct Investment*, where all Foreign Investors in banks may be given voting rights which could exceed the present cap of 10%, at present it has gone up to 49% with some restrictions.

The new policy transformed the banking sector in India completely. Bankers, till this time, were used to the *4-6-4 method* (Borrow at 4%; Lend at 6%; Go home at 4) of functioning. The new wave ushered in a modern outlook and tech-savvy methods of working for the traditional banks. All this led to the retail boom in India. People not just demanded more from their banks but also received more. Today, in terms of *quality of assets* and *capital adequacy*, Indian banks are considered to have clean, strong and transparent balance sheets as compared to other banks in comparable economies in its region. The

Reserve Bank of India is an autonomous body, with minimal pressure from the government. The stated policy of the Bank on the Indian Rupee is to manage instability but without any fixed exchange rate.

**5. The Banking Structure in India:** The commercial banking structure in India consists of scheduled and unscheduled commercial banks. Scheduled banks contain a list of those banks that are included in the *second schedule* of Reserve Bank of India (RBI) Act, 1935.

As on June 30, 1999, there were 300 *scheduled* banks in India having a total network of 64,918 branches. The scheduled commercial banks in India comprise *State Bank of India and its associates* (8), *nationalized banks* (19), *foreign banks* (45), *private sector banks* (32), *co-operative banks*, and *regional rural banks*. Before the nationalization of Indian banks, the State Bank of India (SBI) was the only nationalized bank, which was nationalized on *July 1, 1955*, under the *SBI Act of 1955*. After the nationalization of banks in India, the branches of the public sector banks rose to *approximately 800 percent in deposits* and advances took a huge jump by *in 11,000 percent*.

**Table 1: Nationalization Process of Banks in India.**

Sr.No.	Name of Bank	Year of Nationalization
1.	State Bank of India	1955
2.	SBI subsidiaries	1959
3.	14 major banks of India	1969
4.	07 banks with deposits over ₹two hundred crores	1980

**6. Types of Banks in India:** In India, banks are segregated in different groups. Each group has its own benefits and limitations in its operations. Each one has its own dedicated target market. A few of them work in the rural sector only while others work both in *rural* as well as *urban areas*. Many banks are operating in *cities* only. Some banks are of *Indian origin* and some are *foreign players*. Banks in India can be classified into:

- Public Sector Banks
- Private Sector Banks
- Cooperative Banks
- Regional Rural Banks
- Foreign Banks

One aspect to be noted is the increasing number of foreign banks in India. The RBI has shown certain interest to involve more foreign banks. This step has covered the way for a few more foreign banks to start business in India.

**7. Government policy on Banking Industry (Source:-The federal Reserve Act 1913 and The Banking Act 1933):** Banks operating in most of the countries must adhere to heavy regulations, rules enforced by Federal and State agencies to govern their operations, service offerings, and the manner in which they grow and expand their facilities to better serve the public. A banker works within the financial system to provide loans, accept deposits, and provide other services to their customers. They must do so within a climate of extensive regulation, designed primarily to protect the public interests. The main reasons why the banks are heavily regulated are as follows:

- To protect the safety of the public's savings.
- To control the supply of money and credit in order to achieve a nation's broad economic goal.
- To ensure equal opportunity and fairness in the public's access to credit and other vital financial services.
- To promote public confidence in the financial system, so that savings are made speedily and efficiently.
- To avoid concentrations of financial power in the hands of a few individuals and institutions.
- Provide the Government with credit, tax revenues and other services.
- To help sectors of the economy that they have special credit needs for e.g. Housing, small business, and agricultural loans etc.

**8. Management of Risks:** The growing competition increases the competitiveness among banks. But, existing global banking scenario is seriously posing threats for Indian banking industry. We have already witnessed the bankruptcy of some foreign banks.

According to Shrieves (1992), there is a positive association between changes in risk and capital. Research studied the large sample of banks and results reveal that regulation was partially effective during the period covered. Moreover, it was concluded that changes in bank capital over the period studied was risk-based<sup>1</sup>. Wolgast, (2001) studied the union and gaining activity among financial firms. The author focused bank supervisors in context with success of mergers, risk management, financial system stability and market liquidity. The study concluded that large institutions are able to maintain a superior level of risk management<sup>2</sup>. Al-Tamimi and Al-Mazrooei (2007) examined the risk management practices and techniques in dealing with different types of risk. Moreover, they compared risk management practices between the two sets of banks. The study found the three most important types of risk i.e. commercial banks foreign exchange risk, followed by credit risk, and operating risk<sup>3</sup>. Sensarma and Jayadev (2009) used selected accounting ratios as risk management variables and attempted to gauge the overall risk management capability of banks. They used multivariate statistical techniques to summarize these accounting ratios. Moreover, the paper also analyzed the impact of these risk management scores on stock returns through regression analysis. Researchers found that Indian banks' risk management capabilities have been improving over time. Returns on the banks' stocks appeared to be sensitive to risk management capability of banks. The study suggest that banks want to enhance shareholder wealth will have to focus on successfully managing various risks<sup>4</sup>.

**9. Growth of Banking:** Zhao, Casu and Ferrari (2008) used a balanced panel data set covering the period of 1992-2004 and employed a Data Envelopment Analysis (DEA) based Malmquist Total Factor Productivity (TFP) index. The empirical study indicated that, after an initial adjustment phase, the Indian banking industry experienced sustained productivity growth, which was driven mainly by technological progress. Banks' ownership structure does not seem to matter as much as increased competition in TFP growth. Foreign banks appear to have acted as technological innovators when competition increased, which added to the competitive pressure in the banking market. Finally, results also indicate an increase in risk-taking behaviour, along with the whole deregulation process<sup>5</sup>.

It was found in the study of Goyal and Joshi (2011) that small and local banks face difficulty in bearing the impact of global economy therefore, they need support and it is one of the reasons for merger. Some private banks used mergers as a strategic tool for expanding their horizons. There is huge potential in rural markets of India, which is not yet explored by the major banks. Therefore ICICI Bank Ltd. has used mergers as their expansion strategy in rural market. They are successful in making their presence in rural India. It strengthens their network across geographical boundary, improves customer base and market share<sup>6</sup>.

**10. Regulations for Indian banks:** Currently in most jurisdictions commercial banks are regulated by government entities and require a special bank license to operate. Usually the definition of the business of banking for the purposes of regulation is extended to include acceptance of deposits, even if they are not repayable to the customer's order—although money lending, by itself, is generally not included in the definition.

Unlike most other regulated industries, the regulator is typically also a participant in the market, i.e. a government-owned (central) bank. Central banks also typically have a monopoly on the business of issuing banknotes. However, in some countries this is not the case. In UK, for example, the Financial Services Authority licenses banks, and some commercial banks (such as the Bank of Scotland) issue their own banknotes in addition to those issued by the Bank of England, the UK government's central bank.

Some types of financial institutions, such as building societies and credit unions, may be partly or wholly exempted from bank license requirements, and therefore regulated under separate rules. The requirements for the issue of a bank license vary between jurisdictions but typically include:

- Minimum capital
- Minimum capital ratio
- Fit and Proper' requirements for the bank's controllers, owners, directors, and/or senior officers

- Approval of the bank's business plan as being sufficiently prudent and plausible.

**11. Reserve Bank of India (RBI):** The *central bank of the country* is the *Reserve Bank of India (RBI)*. It was established in *April, 1935* with a share capital of ₹ 5 crores on the basis of the recommendations of the *Hilton Young Commission*. The share capital was divided into fully paid shares of ₹ 100 rupees each, which was entirely owned by private shareholders in the beginning. The government held shares of nominal value of ₹ 220,000 into its custody.

Now, as it is already mentioned that the RBI commenced its operation on April 1, 1935, under the Reserve Bank of India Act, 1934. The Act (II of 1934) under which it was constituted provided the legislative basis for the functioning of the Bank. The bank was constituted to meet the following requirements:

- Regulate the issue of currency notes
- Maintain reserves with a view to securing monetary stability
- Operate the credit and currency system of the country to its advantage

**11.1 Functions of the RBI:** The Reserve Bank of India Act of 1934 had entrusted all the following important functions of a central bank to the Reserve Bank of India. The list of the functions is as following:

11.1.1 Bank of Issue: Under Section 22 of the Act, the Bank has the sole right to issue currency notes of all denominations. The distribution of one-rupee notes and coins and small coins all over the country is undertaken by the Reserve Bank as an agent of the government.

11.1.2 Banker to the Government: The second important function of the RBI is to act as the government's banker, agent, and adviser.

11.1.3 Bankers' Bank and Lender of the Last Resort: The RBI acts as the bankers' bank. Since commercial banks can always expect the RBI to come to their help in times of banking crisis, the RBI becomes not only the banker's bank but also the lender of the last resort.

11.1.4 Controller of Credit: The RBI is the controller of credit, i.e., it has the power to influence the volume of credit created by banks in India. It can do so through changing the Bank rate or through open market operations.

11.1.5 Custodian of Foreign Reserves: The RBI has the responsibility to maintain the official rate of exchange. Besides maintaining the rate of exchange of the rupee, the RBI has to act as the custodian of India's reserve of international currencies.

**11.2 Supervisory Functions:** In addition to its traditional central banking functions, the RBI has certain non-monetary functions of the nature of supervision of banks and promotion of sound banking in India. The Reserve Bank Act, 1934, and the Banking Regulation Act, 1949, have given the RBI wide powers of supervision and control over commercial and co-operative banks, relating to licensing and establishments, branch expansion, liquidity of their assets, management and methods of working, amalgamation, reconstruction, and liquidation.

**12. Indian Banks' Association (IBA):** The Indian Banks' Association (IBA) was formed on *September 26, 1946, with 22 members*. Today, IBA has more than *156 members*, such as public sector banks, private sector banks, foreign banks having offices in India, urban co-operative banks, developmental financial institutions, federations, merchant banks, mutual funds, housing finance corporations, etc.

**12.1 Functions of IBA:**

- Promote sound and progressive banking principles and practices.
- Render assistance and to provide common services to members.
- Organize co-ordination and co-operation on procedural, legal, technical, administrative, and professional matters.
- Collect, classify, and circulate statistical and other information.
- Gain expertise towards common purposes such as cost reduction, increased efficiency, productivity, and improving systems, procedures, and banking practices etc.
- Project good public image of banking through publicity and public relations.
- Encourage sports and cultural activities among bank employees.

## 12.2 Banking Activities (IBA):

- Retail banking, dealing directly with individuals and small businesses
- Business banking, providing services to mid-market businesses
- Corporate banking, directed at large business entities
- Private banking, providing wealth management services to high networth individuals
- Investment banking, activities in the financial markets, such as "underwrite" (guarantee the sale of) stock and bond issues, trade for their own accounts, make markets, and advise corporations on capital market activities like mergers and acquisitions
- Merchant banking is the private equity activity of investment banks
- Financial services, global financial institutions that engage in multiple activities such as banking and insurance

**13. Market Discipline and Transparency:** According to Fernando (2011) transparency and disclosure norms as part of internationally accepted corporate governance practices are assuming greater importance in the emerging environment. Banks are expected to be more responsive and accountable to the investors. Banks have to disclose in their balance sheets a plethora of information on the maturity profiles of assets and liabilities, lending to sensitive sectors, movements in NPAs, capital, provisions, shareholdings of the government, value of investment in India and abroad, operating and profitability indicators, the total investments made in the equity share, units of mutual funds, bonds, debentures, aggregate advances against shares and so on <sup>7</sup>.

**14. Human Resource Management:** Gelade and Ivery (2003) examined relationships between human resource management (HRM), work climate, and organizational performance in the branch network of a retail bank. Significant correlations were found between work climate, human resource practices, and business performance. The results showed that the correlations between climate and performance cannot be explained by their common dependence on HRM factors, and that the data are consistent with a mediation model in which the effects of HRM practices on business performance are partially mediated by work climate <sup>8</sup>. Bartel (2004) studied the relationship between human resource management and establishment performance of employees on the manufacturing sector. Using a unique longitudinal dataset collected through site visits to branch operations of a large bank, the author extends his research to the service sector. Because branch managers had considerable discretion in managing their operations and employees, the HRM environment could vary across branches. Site visits provided specific examples of managerial practices that affected branch performance. An analysis of responses to the bank's employee attitude survey that controls for unobserved branch and manager characteristics shows a positive relationship between branch performance and employees' satisfaction with the quality of performance evaluation, feedback, and recognition at the branch—the "incentives" dimension of a high-performance work system. In some fixed effects specifications, satisfaction with the quality of communications at the branch was also important <sup>9</sup>.

**14.1 Employees' Retention:** The banking industry has transformed rapidly in the last ten years, shifting from transactional and customer service-oriented to an increasingly aggressive environment, where competition for revenue is on top priority. Long-time banking employees are becoming disenchanted with the Dr. K.A. Goyal & Vijay Joshi International Journal of Business Research and Management (IJBRM), Volume (3): Issue (1): 2012 25 industries and are often resistant to perform up to new expectations. The diminishing employee morale results in decreased revenue. Due to the intrinsically close ties between staff and clients, losing those employees completely can mean the loss of valuable customer relationships. The retail banking industry is concerned about employee retention from all levels: from tellers to executives to customer service representatives because competition is always moving in to hire them away. The competition to retain key employees is intense. Top-level executives and HR departments spend large amounts of time, effort, and money trying to figure out how to keep their people from leaving. Sekaran, U. (1989) studied a sample of 267 bank employees, this study traced the paths to the job satisfaction of employees at the workplace through the quality of life factors of job involvement and sense of competence. Results indicated that personal, job, and organizational climate factors influenced the ego

investment or job involvement of people in their jobs, which in turn influenced the intra-psychoic reward of sense of competence that they experienced, which then directly influenced employees' job satisfaction<sup>10</sup>. The job characteristics like autonomy and flexibility clearly stand out as the most important factor for job satisfaction<sup>19</sup>. Mitchell, Holtom, Lee and Grasko (2001) asserted in their study that people often leave for reasons unrelated to their jobs. In many cases, unexpected events or shocks are the cause. Employees also often stay because of attachments and their sense of fit, both on the job and in their community<sup>11</sup>. Saxena and Monika (2010) studied a case of 5 companies out of 1000 organizations and 8752 respondents surveyed across 800 cities in India by Business Today. The survey was on nine basic parameters like career and personal growth, company prestige, training, financial compensation and benefits and merit based performance evaluation. It was concluded that the biggest challenge for organizations is that when new employees appointed, it is difficult to merge them in organizational culture. Each organization has its own unique culture and most often, when brought together, these cultures clash. When there is no retention, employees point to issues such as identity, communication problems, human resources problems, ego clashes, and intergroup conflicts, which all fall under the category of "cultural differences"<sup>12</sup>.

**14.2 Customer Retention:** Levesque and McDougall (1996) investigated the major determinants of customer satisfaction and future intentions in the retail bank sector. They identified the determinants which include service quality dimensions (e.g. getting it right the first time), service features (e.g. competitive interest rates), service problems, service recovery and products used. It was found, in particular, that service problems and the bank's service recovery ability have a major impact on customer satisfaction and intentions to switch<sup>13</sup>. Clark (1997) studied the impact of customer-employee relationships on customer retention rates in a major UK retail bank. He revealed that employee and customer perceptions of service quality are related to customer retention rates and that employee and customer perceptions of service quality are related to each other<sup>14</sup>. Clark (2002) examined the relationship between employees' perceptions of organizational climate and customer retention in a specific service setting, viz. a major UK retail bank. Employees' perceptions of the practices and procedures in relation to customer care at their branch were investigated using a case study approach. The findings revealed that there is a relationship between employees' perceptions of organizational climate and customer retention at a micro organizational level. He suggested that organizational climate can be subdivided into five climate themes and that, within each climate theme, there are several dimensions that are critical to customer retention [15]. Dr. K.A. Goyal & Vijay Joshi International Journal of Business Research and Management (IJBRM), Volume (3): Issue (1): 2012, 26. Hansermark and Albinsson (2004) explored how the employees of a company experience the concepts of customer satisfaction and retention. They used phenomenological method, allowing the informants' own interpretations to be discovered. Satisfaction was discussed from three perspectives: definition of the concept, how to recognize when a customer is satisfied, and how to enhance satisfaction. The informants' experience pertaining to these three categories varied, and a total of seven ways to define, recognize or enhance satisfaction were discovered. These were: service, feeling, chemistry, relationship and confidence, dialogue, complaints and retention. All except the first two of these categories of experience were found to enhance retention, implying that the informants have found that strategies for enhancing both satisfaction and retention are similar<sup>16</sup>. The strongest connection between retention and satisfaction strategies turned out to be in terms of relationship and confidence.

**15. Environmental Concerns:** It is quite clear from the recently formed Copenhagen Climate Council (CCC) that there is a severe need for environmental awareness among all the countries of the world. CCC published Thought Leadership Series on Climate Change which is a collection of inspirational, concise and clearly argued pieces from some of the world's most renowned thinkers and business leaders on climate change. The objective of the pieces is to assist in enhancing the public and political awareness of the actions that could have a significant impact on global emissions growth and to disseminate the message that it is time to act. The Thought Leadership Series was aimed at explaining and spreading awareness of the key elements in the business and policy response to the climate problem. The rationale for the Thought Leadership Series was to change the focus of people.



**16. Social and Ethical Aspects:** There are some banks, which proactively undertake the responsibility to bear the social and ethical aspects of banking. This is a challenge for commercial banks to consider these aspects in their working. Apart from profit maximization, commercial banks are supposed to support those organizations, which have some social concerns. Benedikter (2011) defines Social Banks as “banks with a conscience”. They focus on investing in community, providing opportunities to the disadvantaged, and supporting social, environmental, and ethical agendas. Social banks try to invest their money only in endeavors that promote the greater good of society, instead of those, which generate private profit just for a few. He has also explained the main difference between mainstream banks and social banks that mainstream banks are in most cases focused solely on the principle of profit maximization whereas, social banking implements the triple principle of profit-people-planet<sup>17</sup>. Goyal and Joshi (2011) have concluded in their study on social and ethical aspects of Banking Industry that Banks can protect themselves as a socially and ethically oriented organization by disbursement of loans merely to those organizations, which has social, ethical and environmental concerns<sup>18</sup>.

## CONCLUSION

Over the years, it has been observed that clouds of anxiety and drops of growth are two important phenomena of market, which frequently changes in different sets of conditions. The pre and post liberalization era has witnessed various environmental changes which directly affects the aforesaid phenomena. It is evident that post liberalization era has spread new colors of growth in India, but simultaneously it has also posed some challenges. This article discusses the various challenges and opportunities like history and growth of banks, 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. Banks are striving to combat the competition. As per the above discussion, we can say that the biggest challenge for banking industry is to serve the mass market of India. Companies have shifted their focus from product to customer. The better we understand our customers, the more successful we will be in meeting their needs. In order to mitigate above mentioned challenges Indian banks must cut their cost of their services. Another aspect to encounter the challenges is product differentiation. Apart from traditional banking services, Indian banks must adopt some product innovation so that they can compete in gamut of competition. Technology up gradation is an inevitable aspect to face challenges.

The level of consumer awareness is significantly higher as compared to previous years. Nowadays they need internet banking, mobile banking and ATM services. Expansion of branch size in order to increase market share is another tool to combat competitors. Therefore, Indian nationalized and private sector banks must spread their wings towards global markets as some of them have already done it. Indian banks are trustworthy brands in Indian market; therefore, these banks must utilize their brand equity as it is a valuable asset for them.

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