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## HR Challenges and Opportunities in Banking Sector

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### Abstract

Service sector in India consists of a wide variety of services such as electricity and water supply, road, rail and air transport, hospitals, police, postal department, call centers and Banking etc. Banking Sector is the backbone of service sector and one of the biggest employers in India. The network of Banking is very vast, spread all over India. Due to this widespread network, it brings in its fold people from different origins and of different workforce profile working together under a roof. This necessitates the prevalence of different HR practices in order to deal with them effectively so that their full potential may flower. Beginning with the last decade of the 20th century, globalization, liberalization and technological advances have changed the way the business is done across the world bringing together various threats as well as opportunities. In order to meet the basic objectives, HR personnel in Banking Sector have to identify the nature of these challenges and opportunities and define their roles and responsibilities more sharply to counter these challenges and grasp the various opportunities. The banking industry in India is undergoing a sea change in terms of composition of their staff, their training and infusion of corporate culture and value in them. Now developing such a diverse Human Resource is Challenge for banking sector.

### Keywords:

**Service sector, HRD, Banking Sector, Workforce profile, HR Practices, Globalization, Liberalization, Technological advances, Threats, Opportunities, HR personnel.**

### Research Objectives

1. To assess the challenges and opportunities by the HR in the current era in the Banking Industry.
2. To study the “people side” of HR in Banking Sector.
3. To identify the suggestive measures that can be applied by the HR personnel in order to counter these challenges and successfully grab the opportunities.
4. To analyze the Impact of Liberalization, Privatization & Globalization.
5. To study the challenges and opportunities of national and commercial banks in changing banking scenario.

### Research Methodology:

Data used in this paper is purely secondary data and is sourced from various articles of different scholars, books, journals and through access of many websites. Using Secondary data we were able to analysis and conclusion.

### Introduction

#### Evolution of the Indian Banking Industry

The first bank in India, called The General Bank of India was established in the year 1786. The East India Company established The Bank of Bengal/Calcutta (1809), Bank of Bombay (1840) and Bank of Madras (1843). The next bank was Bank of Hindustan which was established in 1870. These three individual units

(Bank of Calcutta, Bank of Bombay, and Bank of Madras) were called as Presidency Banks. Allahabad Bank which was established in 1865, was for the first time completely run by Indians. Punjab National Bank Ltd. was set up in 1894 with headquarters at Lahore. Between 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up. In 1921, all presidency banks were amalgamated to form the Imperial Bank of India which was run by European Shareholders. After that the Reserve Bank of India was established in April 1935. At the time of first phase the growth of banking sector was very slow. Between 1913 and 1948 there were approximately 1100 small banks in India. To streamline the functioning and activities of commercial banks, the Government of India came up with the Banking Companies Act, 1949 which was later changed to Banking Regulation Act 1949 as per amending Act of 1965 (Act No.23 of 1965). Reserve Bank of India was vested with extensive powers for the supervision of banking in India as a Central Banking Authority. After independence, Government has taken most important steps in regard of Indian Banking Sector reforms. In 1955, the Imperial Bank of India was nationalized and was given the name "State Bank of India", to act as the principal agent of RBI and to handle banking transactions all over the country. It was established under State Bank of India Act, 1955. Seven banks forming subsidiary of State Bank of India was nationalized in 1960. On 19th July, 1969, major process of nationalization was carried out. At the same time 14 major Indian commercial banks of the country were nationalized. In 1980, another six banks were nationalized, and thus raising the number of nationalized banks to 20. Seven more banks were nationalized with deposits over 200 crores. Till the year 1980 approximately 80% of the banking segment in India was under government's ownership. On the suggestions of Narsimhan Committee, the Banking Regulation Act was amended in 1993 and thus the gates for the new private sector banks were opened. The following are the major steps taken by the Government of India to Regulate Banking institutions in the country:-

1949: Enactment of Banking Regulation Act.

1955: Nationalisation of State Bank of India.

1959: Nationalization of SBI subsidiaries.

1961: Insurance cover extended to deposits.

1969: Nationalisation of 14 major Banks.

1971: Creation of credit guarantee corporation.

1975: Creation of regional rural banks.

1980: Nationalisation of seven banks with deposits over 200 Crores.

### **Phases of Evolution of Indian Banking Industry**

In the evolution of this strategic industry spanning over two centuries, immense developments have been made in terms of the regulations governing it, the ownership structure, products and services offered and the technology deployed.

The entire evolution can be classified into four distinct phases.

Phase I- Pre-Nationalisation Phase (prior to 1955)

Phase II- Era of Nationalisation and Consolidation (1955-1990)

Phase III- Introduction of Indian Financial & Banking Sector Reforms and Partial Liberalisation (1990-2004)

Phase IV- Period of Increased Liberalisation (2004 onwards)

### **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.

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## **HRD**

To bring out the best in a man is the essence of human resource development. Simply speaking, Human Resource Development (HRD) is the process of increasing the capacity of human resources through the development. Human Resource Development is something that everyone does. Individuals do it as they work to develop themselves; managers do it as they work to support others' development and the Human Resource Development staff does it, as they create the overall development tools for an organization. Thus, it is a process of adding value to individuals, teams and the organization as a human system. In a larger context, Human Resource Development refers to empowering people and enabling them to use their power for development of the organization to which they belong, and society at large. It refers to developing proactivity and capacity to embrace larger issues. Considering the vital importance of human resources, they are now being treated as assets which are most precious for the survival of an organization. New values are being added. There has been a shift from traditional master & slave relationship to the modern trusteeship system (in which employers and employees are considered as partners investing their wealth and labor respectively) and from traditional salary administration to the new Human Resource System (HRS). With human resources being a part of an organization, HRS is a subsystem of larger system i.e., an organization and Human Resource Development is the center of HRS and most vital for the organizational advancement. Human Resource Development includes both the development of the people and development of an organization

### **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 industry 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. 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.

Mitchell, Holtom, Lee and Graske (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.

### **Technological Development**

Technology is the practical application of science to commerce or industry. Human resources tasks cover a large variety of activities requiring different skills ranging from compensation and benefit administration (highly quantitative) to employee relations (highly qualitative). Walker suggested that HR technology should focus on strategic alignment, business intelligence, efficiency, and effectiveness. It must change the work performed by HR personnel, by improving service level, allowing more time to work of higher value, and reducing their costs. Lewin found that high involvement practices had resulted in significant positive improvement on market value, rate of return on capital employed, revenue growth, revenue-per-employee rate, productivity, product/service quality, and even organizational survival. Also, the use of technology by HR has proven to assist on the improvement of business performances. Sartain clarified that, in order for this to happen, HR should bring the customer's voice to inside an organization, and accomplishing that, upper management will empower HR to reflect the customer's value proposition.

### **Challenges and Opportunities**

The Indian banking sector continues to face some structural challenges. We have a relatively large number of banks, some of which are sub-optimal in size and scale of operations. On the regulatory front, alignment with global developments in banking supervision is a focus area for both regulators and banks. The new international capital norms require a high level of sophistication in risk management, information systems, and technology which would pose a challenge for many participants in the Indian banking sector. The deep and often painful process of restructuring in the Indian economy and Indian industry has resulted in asset quality issues for the banking sector; while significant progress is being made in this area, a great deal of work

towards resolution of these legacy issues still needs to be done. The Indian banking sector is thus at an exciting point in its evolution. The opportunities are immense – to enter new businesses and new markets, to develop new ways of working, to improve efficiency, and to deliver higher levels of customer service. The process of change and restructuring that must be undergone to capitalize on these opportunities poses a challenge for many banks. The Indian banking sector is faced with multiple and concurrent challenges such as increased competition, rising customer expectations, and diminishing customer loyalty. The banking industry is also changing at a phenomenal speed. While at the one end, we have millions of savers and investors who still do not use a bank, another segment continues to bank with a physical branch and at the other end of the spectrum, the customers are becoming familiar with ATMs, e-banking, and cashless economy. This shows the immense potential for market expansion. The exponential growth for the industry comes from being able to handle as wide a range of this spectrum as possible. In this complex and fast changing environment, the only sustainable competitive advantage is to give the customer an optimum blend of technology and traditional service. As banks develop their strategies for giving customers access to their accounts through various advanced services like e banking, mobile banking and net banking, they should also regard this emerging platform as a potential catalyst for generating operational efficiencies and as a vehicle for new revenue sources. Banking industry's opportunities includes

- ) Agrowingeconomy
- ) Banking deregulation
- ) Increased client borrowing
- ) An increase in the number of banks
- ) An increase in the money supply
- ) Low government-set credit rates and larger customer checking account balances.

Developing countries like India, has a huge number of people who don't have access to banking services due to scattered and fragmented locations. But if we talk about those people who are availing banking services, their expectations are raising as the level of services are increasing due to the emergence of Information Technology and immense competition between the services and products provided by different banks. Since, foreign banks are playing in Indian market, the number of services of offered has increased and banks have laid emphasis on meeting the customer expectations. India's banking sector has made rapid strides in reforming and aligning itself to the new competitive business environment. The major challenges faced by banks today are as to how to cope with competitive forces and strengthen their balance sheet. Today, banks are groaning with burden of NPA's. It is rightly felt that these contaminated debts, if not recovered, will eat into the very vitals of the banks.

## RECOMMENDATION

- ) 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. Now- days 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 an valuable asset for them.

J Over the years, it has been observed that clouds of trepidation 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.

### **Suggestive Measures**

1. In order to grab the opportunities available, there is the need of persons who understand the broad technologies available today, their capabilities and limitations, so that they can conceptualize the use of the technologies in their work areas. Carefully designed training programs for the members.
2. Collaboration with the Academic Institutions: Collaboration with the academic institutions of good standing is needed to ensure that the IT effort.
3. Conducting training and development programmes: Appropriate training programmes need to be conducted for those employed in the industry.
4. Flexible structure: Existing facilities of instant communication from the top level to the lowest field level have made the middle management redundant.
5. More authority to grass root level employees: There is a need to give more authority to the employees at the grass root level to quote competitive so as to generate more business.
6. A more critical look at manpower costs and a sharper technological thrust are required: for this, there is need to:
  - a. Redeploy, rebalance, retrain and reeducate workers.
  - b. Introduce multidisciplinary, multi-skills approach.
  - c. Analyze the recruitment policy more systematically.
  - d. Train workers in customer care.
  - e. Start quality circles.
  - f. Emphasize greater worker participation.

### **Conclusion**

At the end it can be said that the Banking Industry has emerged today as the main vehicle for the socio-economic development of the country. Banking is a sunrise industry, not only in India but in many parts of the world. The vision for information technology in Banking for the next 25 years is to reach a stage where all the information needs of the organization can be met by a comprehensive information highway, available to all internal and external stakeholders. The vision is to improve personal productivity at all levels by the effective use of this technology.

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 colours of growth in India, but simultaneously it has also posed some challenges. This article discusses the various challenges and opportunities like High transaction costs, IT revolution, timely technological up-gradation, intense competition, privacy & safety, global banking, financial inclusion. Banks are striving to combat the competition. The competition from global banks and technological innovation has compelled the banks to rethink their policies and strategies.

The biggest challenge for banking industry is to serve the mass and huge market of India. Companies have become customer centric than product centric. 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.

A commitment to utilize the Human Resource and IT appropriately in the organization already exists. Funding has been increasing this year, and should not be a major constraint in the future. Therefore the organizational

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thrust should be to ensure that the resources human as well as technology are allocated wisely, in a planned manner, the vision concretized, and followed through.

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