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CURRENT BANKINGS LAWS AND FINANCIAL SECTOR ISSUES IN INDIA

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ABSTRACT

The banking industry**,** one of the key sectors of the service economy**,** is highly competitive. The Indian banking system presents well-structured and systematic. The Indian banking industry has seen great changes in recent years**.** But there is no largest bank in the world. The aim of this study is to examine recent issues and challenges in the Indian banking sector**.** The study **is** based on secondary data. Research shows that the most important problems encountered in the banking sector are microeconomic risks**,** government and banking regulation, political interference and technological risks, etc.

Key words - bank system, micro economic, non-performing assets and cyber fraud.

INTRODUCTION

In 1991, India introduced the LPG system. This has an impact on all sectors such as banking, labor market, industry etc. The new economic reform has increased the need and importance of the banking sector for the country's development. The government has made many changes in banking policy. The Indian government launched the Jan Dhan scheme which opened multiple accounts at the bank. Likewise, the government initiated and implemented the Mandatory Direct Transfer of Benefits, which requires every Indian citizen to have a bank account to transfer grants, scholarships and other government benefits. In the last decade, the number of bank customers on these accounts has increased significantly. Likewise, the government is generous in providing loans to customers such as mudra loans, startups, opening SME and MSME branches for small industries and traders, etc. On 4g and due to this technological development, many challenges arise for the banking sector. Most transactions are processed through online and mobile banking. The challenge for banks now is to adopt and improve the technology and take control of online scams and scams in the banking sector.

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Historical background and development:

Hindustan Bank was founded in 1870. It was India's first bank. Thereafter, three Presidential Banks under the Presidential Banking Act of 1876 namely Calcutta Bank, Bombay Bank and Madras Bank were established. This laid the foundation for modern banking in India. In 1921, all the banks under the president were merged to form the Royal Bank of India. Imperial Bank performed a limited number of central banking functions prior to the establishment of the RBI. It engages in all types of commercial banking activities except for foreign exchange transactions.

The Reserve Bank of India Act was passed in 1934 and the RBI was established as a supreme body with no major government ownership. The Regulations Act was passed in 1949. These regulations put the RBI under government control; By law, the RBI is given broad supervisory powers and the power to conduct inspections within the RBI In 1955, the RBI gained control of the Royal Bank of India, which remains the state bank of India.

It was 1960 when the RBI allowed weak banks to merge with strong banks. He drastically reduced the total number of banks from 566 in 1951 to 85 in 1969. In July 1969, the government nationalized 14 banks with deposits over Rs 200 crore. The nara shimha committee report proposed sweeping reforms to the banking industry in 1992 to introduce internationally accepted banking practices. The amendment to the Banking Regulation Act of 1993 saw the entry of new private sector banks.

Currently, the Indian banking system consists of 18 public sector banks, 20 private sector banks, 43 foreign banks, 56 rural area banks, 1,589 urban cooperative banks and 93,550 rural cooperative banks. Indian banks have successfully applied Basel II international banking supervision standards and according to RBI, the majority of banks have met Basel III capital standards ahead of schedule on 31 March 2019. According to the KPGM-CII report, India's banking sector is expanding rapidly and has the potential to become the fifth largest by 2025.

ISSUES AND CHALLEGES IN BANKING SECTOR IN INDIA

A. **Macro Risk:**

Macro risk is the top concern of respondents across all countries, although many economies have returned to positive growth. For bankers, the uncertainty of the macroeconomic environment and the persistently high level of government debt in the corporate and consumer sectors are the basis for the bursting of speculative bubbles in the face of severe instability. Macroeconomics includes market risk, currency risk, technology risk, country risk, etc. in particular the decline of the Chinese economy in 2016 and the recent devaluation of the Indian rupee.

B. **Regulations**:

Indian banks have many rules and regulations in effect. The Central Bank of India and the Government of India regulate commercial banks. Bankers have also been concerned about the impact of increased regulatory requirements on innovation and diversity, and their ability to compete successfully with smaller players that are not subject to the same regulatory scrutiny. Today, the RBI and the state regulator are proposing new rules and regulations that will be implemented.

C. **Political interference:**

Bankers worry that governments will interfere with banking operations for a variety of reasons, including increasing revenue in times of financial stress, improving investor protection, and restoring the national tax base. The bankers also pointed out that the uncertainty in various political environments, including gubernatorial elections and not only in India in other countries, could lead to greater interference in bank governance, credit policy and taxation.

D. **Technology Risks and Cyber Threats:**

Of all the most pressing concerns, outdated core information technology systems are a significant concern for global bankers. Failure to properly invest in a secure and resilient system capable of improving digital and mobile banking services can lead to significant losses and increase the risk of cyberattacks. . It is estimated that 95% of transactions in India are paid in cash, but with the increasing penetration of computers and smartphones as well as increasing internet access, Indians are adopt digital channels for their banking needs. As a result, cybercrime is becoming a bigger threat.The FSR has considered cyberattacks a high-risk area for the Indian banking sector. The request for to protect India's banking system has increased following a massive data dump of 3.2 million debit and credit cards last year, one of the largest attacks in the country. Another major global attack recently affected government and several corporate computer systems in various countries including India.

E. **Bad assets/bad debts**:

At nearly Rs 180,000 crore India's bad debt pile is larger than the gross domestic product of at least 137 countries. Raw NPA rate [2] in India could reach 1.2% in March 2018 from 9.6% in March 2017. According to FSR [1] in September 2016, raw NPA is

9.2%. Currently, the most affected are the public banks, which dominate the Indian banking system. In March 2017, the average bad debt of public sector banks was 75% of their net worth. According to the International Monetary Fund, about 37% of India's total debt is the fifth largest banking sector in the world by 2020. And the third largest by 2025 according to a KPMGCII report.[3]

F. **Corruption and Fraud**:

Past World Trust Bank and Baroda Bank scams show that very few officials abuse the freedoms they have been granted under the guise of liberalization to drive out profit. These scams have severely damaged the image of these banks and thus their profitability. The problem of bank fraud for the banking regulator is the increasing number of banks dealing with fraud. Adding to the concerns is that banks often appear reluctant to report such cases that have been made for two to three years as NPAs before they are flagged as fraudulent, the RBI said in the report. Over the past 5, years, the number of bank fraud cases has increased by 19.6% to 5,064 cases.

Conclusion

In this research report, the Indian banking sector is critically analyzed along with emerging trends, characteristics and challenges. The banking sector counters the decline in profitability by increasing impaired and non-essential assets for the proper development of the financial product. Banks experience advances in technology, transparent and efficient systems. This is the good character of in terms of cost reduction, speed and fast execution of transactions, but in recent days, banks are facing complex problems such as cyber attacks, low security and potential server problems. The Indian economy continues to increase its contribution to gross domestic product, but is very weak. Banks are at the heart of any economic system, whether developed or financially rational, as financial inclusion is still a distant dream.The banking sector aims to fully adopt the principles and structure of the Banking Committee. The banking system as the cornerstone of the country's economic prosperity. Banks are the lifeline of every economy and are the collective responsibility of all countries. The advancement of the banking system, anxious to meet all the challenges of the national and global business environment, is an incentive to adopt a more sophisticated way of allocating and using scarce financial resources such as cash and capital. Banks are transitioning from a range of compliance layers to a level of visibility that requires risky IT infrastructure upgrades