

FINANCIAL SECTOR REFORMS – GST, DEMONETISATION, BANKING REFORMS, FINANCIAL INSTITUTIONS – CHALLENGES AHEAD

AJAY KUMAR
M. COM.

COMMERCE DEPARTMENT KUK.

JYOTI
M. COM.

COMMERCE DEPARTMENT KUK.

ABSTRACT:-

The amount of research related to financial sector reforms and challenges. A review of the literature base will help identify the topic that has been explored as will identify topics for further research. The research project collects, synthesizes and analyses both the research strategies [i.e., methodologies] and content [e.g., topics, focus, categories] of the current literature and then discusses an agenda for future research efforts. Several people define this in a several way. GST or the Goods and Services Tax aims to remove the cascading effect of various taxes. The scary part that is most visible now is the shooting up of services tax - from 14-15% depending upon the sector to flat 18%, but the negative effect is only short term. Due to the elimination of cascading of taxes, the potential benefits of GST to Indian economy are many and would lead to a number of goods being available at a much cheaper rate. In the context of economic liberalisation and growing trend towards globalisation (external liberalisation), various banking sector reforms have been introduced in India to improve the operation efficiency and upgrade the health and financial soundness of banks so that Indian banks can meet internationally accepted standards of performance. Financial institutions encompass a broad range of business operations within the financial services sector, including banks, trust companies, insurance companies, and brokerage firms or investment dealers. Virtually everyone living in a developed economy has an ongoing or at least periodic need for the services of financial institutions. On November 8, 2016 currency notes of denominations of RS 1000 and RS 500 (specified bank notes or SBNs) valued at RS 15.4 trillion and constituting 86.9 per cent of the value of total notes in circulation, were demonetised. Demonetisation led to several changes for the financial sector which can be summarised this paper. This paper highlights the concept of success or failure of demonetization. In this paper, the study mainly focuses on the find solutions being faced by the different sectors of the Indian economy and the issue of sustainability for a better tomorrow.

KEY WORDS :-NITI Aayog, Specified Bank Notes (SBNs), GST, Globalisation.

OBJECTIVE OF STUDY:-

1. To study the concept of financial sector reforms.
2. To study the challenges of financial sector reforms.
- 3 To study the opportunities of financial sector reforms.
4. To provide concluding remarks for the same.

INTRODUCTION:-

Financial sector is the backbone of any economy and it plays a crucial role in the mobilisation and allocation of resources. The main objectives of the financial sector reforms are to allocate the resources efficiently, increasing the return on investment and accelerated growth of the real sectors in the economy. Financial sector reforms refer to the reforms in the banking system and capital market.

An efficient banking system and a well-functioning capital market are essential to mobilize savings of the households and channel them to productive uses. The high rates of saving and productive investment are essential for economic growth. Prior to 1991 while the banking system and the capital market had shown impressive growth in the volume of operations, they suffered from many deficiencies with regard to their efficiency and the quality of their operation.

Research Methodology:-

The paper has been written on the basis of secondary data. The secondary data were collected from published books, journals, research papers, magazines, daily newspaper, internet and official statistical documents. The study is qualitative in nature.

THE CHALLENGES OF FINANCIAL SECTOR REFORMS:-

(A) Basic Challenges In The Implementation of GST

1. Avoidance of cascading effect cornerstone of GST– Seamless Credit– But I ‘See less credit’
 - * RCM pressure
 - * Legal restrictions
 - * Discretionary disallowance
2. GST is absolutely different from existing system. It, therefore, requires that tax administration staff at both Centre and state to be trained properly in terms of concept, legislation and Procedure.
3. Clients' understanding of GST provisions and its impact on their business is still at a nascent stage, and many are still identifying the locations and places they need to be registered in.
4. The new tax regime requires transporters to generate e-way bills on the GST portals which includes incurring substantial costs to install radio frequency identification devices (RFIDs). Currently there is no clarity on who will bear the bill for the infrastructure.
5. With GST rates and their complexities only recently becoming a part of our policy framework, skilled staff with updated GST subject knowledge and training are not easily available.
6. Several transactions take the character of sales as well as services, thus there is complexity in determining the nature of transaction.
7. The mechanism of imposing taxes, exemptions, abatements, other benefits are different in state and centre.
8. Administration mechanics of the centre and state and even in different states is different.
9. The transition to GST will require businesses to change their ERPs, too; either by upgrading the software or by purchasing new GST-compliant software. This will lead to increased costs of buying new software and training employees on how to use it.

10. Most small businesses in India will require professional assistance to become GST compliant as it is a completely new system. While this will benefit the professionals, the small businesses will have to bear the additional cost of hiring experts.
11. Many small businesses are not tech-savvy and do not have the resources for fully computerized compliance.
12. The GST rates are too high on many products. High taxes can lead to:
 - * Increased tax evasion,
 - * Inspector raj,
 - * Lower demand and thus lower tax collection, and
 - * Higher prices. There is a risk that it may lead to short-term inflation unless "industry monitoring" is performed.

(B) BANKING REFORMS:-

1. The FSR labeled cyber-attacks as a high-risk zone for India's banking sector. The RBI classifies bank fraud as transactions involving any cheating, negligence, misappropriation of funds, or forged documents.
2. "Almost all corporate loan-related fraud cases get seasoned for two to three years as NPAs before they are reported as fraud," the RBI said in the report. In the last five years, the volume of bank fraud has increased by 19.6% to 5,064 cases.
3. As per a survey, net NPAs amount to only 2.36 percent of the total loans in the banking system.
4. As per the International Monetary Fund (IMF), around 37 percent of the total debt in India is at risk.
5. Scams in the erstwhile Global Trust Bank (GBT) and the Bank of Baroda show how few officials misuse the freedom they granted under the guise of liberalisation for their personal benefit. These scams have badly damaged the image of these banks and consequently their profitability.
6. These days it's all about the customer experience, and many banks are feeling pressure because they are not delivering the level of service that consumers are demanding, especially in regards to technology.

(C) DEMONETISATION

1. Black money is money which is earned through any illegal activity controlled by country regulations. These money are usually received in cash and this income is not taxed. Recipients of black money must hide it, spend it only in the underground economy.
2. For some of the industries demonetization has impacted negatively. Construction and Real Estate industries and other industries which are directly or indirectly dependent on them is impacted for this period. Demand for Luxury items such as Gems and Jewelry, high End Retail, Auto Sector along with Auto Component Sector will tend to decline.
3. There are challenges to this switch for rural economy as-
 - * Penetration of Internet and mobile is low
 - * People are not well versed with Banking habit and especially mobile banking.
 - * The very idea of transactions without cash is unbelievable for few.

*Sudden move- Created panic among people of rural India.

* Cash shortage- The limit in transaction put the people standing outside the banks.

*Agriculture- Being the harvesting season the demonetization resulted in very less purchase of harvest. Also the sowing is affected as farmers have no money to purchase seeds & fertilizers.

* Wedding season- Weddings happening in rural areas were affected as they transact in cash.

*Daily wages- Workers were denied payment because of unavailability of cash.

4. Other Challenges

- It has created cash crunch in the economy, this has direct impact on the small, retail and informal sector as most of their business is transacted through cash only.

- Many small scale traders have experience no or very less business in the last two weeks due to demonetization. It hampered the small scale economy in short run.

- Even farmers experienced the problem in sowing rabi crops due to unavailability of cash that needed them to purchase the required items due to demonetization.

- Harvesting, a few months down the line, will be a bigger problem and sales are projected to be at high risk.

- High level of illiteracy among rural farmers

- Lack of banking penetration in remote areas

- Internet connectivity is a major challenge

- Trust issues on digital channels

- Cash crunch has adversely impacted the sowing in Rabi season and harvesting will also face the similar fate due to low level of sales.

(D) Financial institutions:-

1. Despite all of the headlines about banking profitability, banks and financial institutions still are not making enough return on investment, or the return on equity, that shareholders require.

2. These days it's all about the customer experience, and many banks are feeling pressure because they are not delivering the level of service that consumers are demanding, especially in regards to technology.

3. Financial technology (FinTech) companies are usually start-up companies based on using software to provide financial services. The increasing popularity of FinTech companies is disrupting the way traditional banking has been done. This creates a big challenge for traditional banks because they are not able to adjust quickly to the changes – not just in technology, but also in operations, culture, and other facets of the industry.

4. Regulatory requirements continue to increase, and banks need to spend a large part of their discretionary budget on being compliant, and on building systems and processes to keep up with the escalating requirements

5. The core banking system agnostic; getting meaningful intelligence from the data held within the core banking system. By intelligence I mean the ability to monitor trends in individual product lines, to measure product profitability, to construct a branch balance sheet and income statement so that you can measure the performance of the branch vs.

target. We all know that the data is sitting there in the core banking system, so why on earth can't we just get it out and put it into a set of management reports every day and at month end.

6. If the finance department could be analysing financial reports on a daily basis then they could reduce the number of surprises and investigations at month end, shaving a significant amount of time from the month end close process, thus producing monthly management reports on day one or two of the new month rather than days ten to fifteen.

7. Some of the issues financial institutions face today include:

*Promoting growth and sustaining profitability in an environment with low interest rates.

*Rebuilding asset quality and strengthening capital positions

*Developing new and reliable sources of revenue.

*Increasing the business value of customer relationships, especially when customers have become more demanding.

*Restoring public confidence in the industry.

*Competing with aggressive, innovative non-traditional competitors.

*Incorporating a risk management culture into daily operations.

8. You may or may not end up doing so, but it is seriously worth considering. A reputable firm can provide the content and expertise for less than an employee salary, and they're experts. There are downsides, like concerns over getting your voice or complexity of the industry.

9. Thus far, challengers and Fintechs have been portrayed as somewhere between a benediction and a panacea. The great generic USP – "we're not a traditional bank" – has helped them weather all sorts of issues from low take-up to sub-optimal IT to almost-but-not-quite products, with scarcely a hard question asked. But the honeymoon period may be drawing to a close, and even in combination, they have still to take any serious market share away from big/traditional banks.

10. There's also an abundance of regulation. Governments at all levels have taken an increasing interest in the financial services industry, post the global financial crisis. Old and new policies will have a significant effect on the success and failure of new companies.

11. The digitalization of financial products removes the physical constraints associated with legacy financial institutions. Therefore, financial products can be designed today with modern technologies that allow them to be more convenient and portable globally.

OPPORTUNITIES:-

(A) GST :-

1. Constitutional provision does not allow both the Central and State Governments to tax both goods and services in an inclusive manner. The government has therefore recognized the need for harmonization of goods and services tax so that both can be levied in a comprehensive and rational manner in a new taxation regime – namely, Goods and Services Tax (GST).

2. It will be the major contribution of GST for the business. Currently, there are different state level and centre level indirect tax levies that are compulsory one after another on the supply chain till the time of its utilization.

3. The important gains from the GST reform are that it is expected to broaden the tax base, reduce distortions in the economy through a more comprehensive input tax credit, enhance export competitiveness by comprehensively relieving domestic consumption taxes on exports, ensure greater regional equity by getting rid of inter-state sales tax and having a destination-based tax, and help create a seamless national market by removing inter-state trade barriers.
4. Reform will significantly reduce the compliance cost for taxpayers by simplifying and harmonizing the tax structure and by making the administration uniform across states.
5. Under GST mechanism, the cost of tax that consumers have to bear will be certain, and GST would reduce the average tax burdens on the consumers.
6. This will be the major contribution of GST for the business and commerce. At present, there are different state level and centre level indirect tax levies that are compulsory one after another on the supply chain till the time of its utilization.
7. GST rollout is turning out to be a big boon for finance professionals, who are seeing a massive spurt in job openings. According to experts, companies across sectors will hire over 20,000 finance professionals this year.
8. GST should deliver value addition to the customers as well as traders. Tailor made software is the need of the hour. This will through an opportunity to the software industry to meet this challenge.
9. GST can provide the opportunity of Corruption Free Indian Revenue Services. This may help in uprooting the Black money economy and bringing all under traders and Service providers under the Tax regime.

(B) Banking reforms:-

1. There is a good chance to upgrade much of the agri-credit to the electronic platform quickly.
2. If Point of sale machines provide, it can help create new jobs and augment incomes in rural areas. It would - also help in narrowing down the rural-urban digital divide.
3. It will help to achieve Digital India campaign in rural areas.
4. Increased usage of POS machines leading to wired transactions.
5. Move towards cashless economy.
6. More banking penetration will eventually help in direct benefit transfer regime for farm and fertilizer subsidy in future.
7. Digitally literate farmers and labour.
8. Government can make it mandatory that the APMC payments beyond a minimum threshold be made into bank accounts only.
9. Resultant financial inclusion will lead to generation of more formal credit and thrash unorganized lending.
10. New avenues for corporate social responsibilities obligations e.g. companies can arrange for POS machines and training for the same.

(C) Demonetisation:-

1. For now due to necessity many cash users may transit to cashless payment and this may lead to behavioural changes as trust in e payments increases.
2. The unaccounted barter eco may be formalised.
3. If success rural eco can access market f entire country increasing market.
4. Land records digitization will help farmers immensely.
5. Reduction in cash transaction will reduce cost incurred thus saving it.

(D) Financial Institutions :-

1. Our broad range of Financial Products and Advisory Services support one goal: improving lives and raising living standards through sustainable private sector development. They are flexible and can be tailored to a client's specific needs.
2. You may or may not end up doing so, but it is seriously worth considering. A reputable firm can provide the content and expertise for less than an employee salary, and they're experts. There are downsides, like concerns over getting your voice or complexity of the industry.
3. Mobile and online banking for the convenience of the customers, Available call centers to address inquiries, complaints, and requests immediately.
4. Access to technologies (mobile, cloud, networks, analytics) is rapidly making financial products and services more available to all consumers and businesses.
5. The need and demand for financial services and products is as robust as ever. It is a critical industry that provides a core function in the lives of every consumer and business in the world.

CONCLUSION:-

The broader objectives of the financial sector reform process are to formulate the policy for improving the financial health and to strengthen the institutions. As part of the reforms process many private banks were granted licence to operate in India. This has resulted into a competitive environment in the banking industry which in turn has helped in using the resources more efficiently. Traditionally the industrial units were sanctioned term loan by the development banks and working capital by the commercial banks. The reform process has changed the pattern of financing and now both the institutions are willing to extend long term loan as well as working capital loan. But there is some difference in the mode of operation. This has enabled the industrial units to avail credit facilities from a single institution. Despite the fact that the banks provide both the term loan and the working capital loans, the industrial units prefer the development banks for the following reasons. It provides equal support to the new as well as existing industries. The period of repayment of loan is comparatively longer. Besides providing financial assistance, it acts as the implementing agency for the different government sponsored schemes. Hence the industrial units can avail of both the financial assistance as well as the incentives offered under various development schemes through a Single Window System. As lending is the prime activity of these institutions, it acquires specialisation in this field and can share its expertise with the industrial units.

Reference:-

1. <https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp030207>
2. <http://www.economicdiscussion.net/india/reforms-india/financial-sector-reforms-in-india-since-1991/10991>
3. <https://qz.com/1020168/the-rbi-is-worried-about-three-big-problems-in-indias-banking-sector/>
4. <https://www.quora.com/What-are-the-difficulties-in-implementing-GST-in-India>
5. <https://m.economictimes.com/small-biz/policy-trends/top-5-challenges-faced-by-tax-accounting-professionals-due-to-gst/articleshow/59436292.cms>
6. https://www.motilaloswal.com/article_new.aspx/1260/What-are-the-major-challenges-to-GST-implementation
7. <https://www.jagranjosh.com/current-affairs/issues-and-challenges-facing-indian-banking-sector-1456572882-1>
8. <https://sol.du.ac.in/mod/book/view.php?id=1225&chapterid=866>
9. <https://zafin.com/blog/peeling-banking-banana-top-banking-challenges-2016/>
10. <https://www.linkedin.com/pulse/demonetization-challenges-opportunities-smes-ashwani-kumar>

