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EMERGING TRENDS IN BANKING SECTOR: RADICAL TRANSFORMATION AND SURVIVAL

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ABSTRACT

Today banking is known as pioneering banking. India is having a well developed banking system with different classes of banks: public sector banks, foreign banks, private sector banks, regional rural banks, co-operative banks. The use of technology has brought a revolution in the working style of the banks. Information Technology has had a positive impact on substitutes for traditional services. With networking and interconnection new challenges are arising related to security privacy and confidentiality to transactions .The study identifies challenges and opportunities for Indian banking The RBI's most important goal is to maintain monetary stability. Reducing inflation has been one of the most important goals for some time. There has been considerable innovation and diversification in the business of major banks. Some of them have engaged in the areas of consumer credit, credit cards, merchant banking, internet and phone banking, leasing, mutual funds etc. With the emergence of Privatization, Globalization and Liberalization in India, Banks are focusing on Research and Development and applying various innovative ideas and technology. There is a close relationship between the development of banking sector and the new innovations in technology and Electronic data processing. The present article focuses on the benefits and challenges of changing Banking trends and to study the performance of existing technology based products and services being offered by banks.

KEYWORDS: Banking Innovation, Technology, Internet, Services

Indian economic environment is witnessing path breaking reform measures. The financial sector, of which the banking industry is the largest player, has also been undergoing a metamorphic change. Today the banking industry is stronger and capable of withstanding the pressures of competition (Binija, 2015). While internationally accepted prudential norms have been adopted, with higher disclosures and transparency, Indian banking industry is gradually moving towards adopting the best practices in accounting, corporate governance and risk management. Interest rates have been deregulated, while the rigors of directed lending are being progressively reduced. In 1991, the Government opened the doors for foreign banks to start their operations in India and provide their wide range of facilities, thereby providing a strong competition to the domestic banks, and helping the customers in availing the best of the services. The Reserve Bank in its bid to move towards the best international banking practices will further sharpen the prudential norms and strengthen its supervisor mechanism. Current banking sector has come up with lots of initiatives that oriented to provide a better customer services with the help of new technologies. IT has helped the Banking industry to deal with the challenges the new economy poses. Technology has opened up new markets, new products, new services and efficient delivery channels for the banking industry (Bhosale et al., 2013).

Few examples are such as Online Banking, Mobile Banking and Internet Banking. The progress of technology and development of worldwide have significantly reduced the cost of global fund transfer. The IT revolution has set the stage for unparalleled raise in financial activity across the globe. It is IT which enables the banks in meeting such high expectations of the customers. The Indian Banking has finally worked up to the competitive dynamics of new Indian market and its relevant issues concerning the various challenges of Globalization (Uppal, 2007). Banks that employ IT solutions are perceived to be futuristic and proactive players capable of meeting the multifarious requirements of large customer base. Indian Banking industry is going through a phase of metamorphosis and has witnessed changing strategies by different banks to adapt to the embryonic competitive environment. This shift from conventional social banking to profit banking, execution of prudential norms pertaining to Capital Adequacy norms, income appreciation, asset classification, exposure norms etc. have given rise to increased competition and thrown greater challenge in banking sector (Goyal et al., 2011).

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Zhao et, al. (2008) looks at the deregulation – prudential re-regulation framework which has been adopted in Indian banking sector and its impact on competition and performance. Authors argued that deregulation induced competition should lead to efficiency and better performance in banking industry.

Phases of Indian Banking Sector

The history of Indian banking can be divided into three main phases.

Phase I (1786- 1969) - Initial phase of banking in India when many small banks were set up

Phase II (1969- 1991) - Nationalization, regularization and growth

Phase III (1991 onwards) - Liberalization and its aftermath

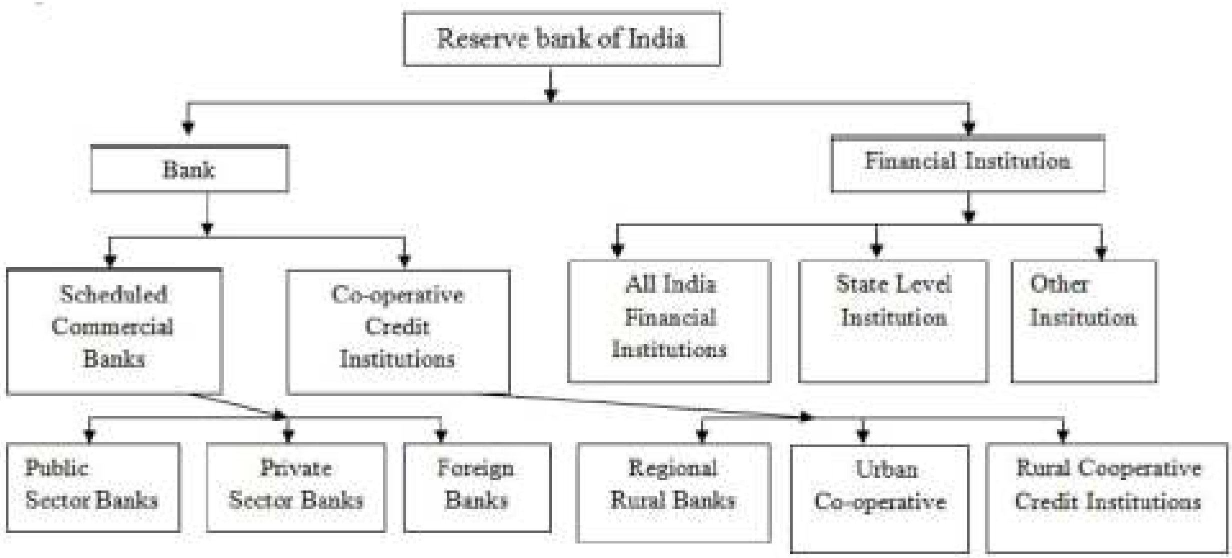
METHODOLOGY USED

The paper is based on the Secondary data available on Internet, banking books, journals, newspapers, websites, research papers and various existing innovative products offered by banks.

Present Scenario and Trends in Banking

The present banking scenario provides a lot of opportunities and challenges. India is being fundamentally strong supported by concrete economic policies, decisions and implementations by the Indian Government. Today, the service sector is contributing half of the Indian GDP and the banking is most fashionable service sector in India. The significant role of banking industry is essential to speed up the social economic development. To improve foremost areas of banking sector, Government of India, RBI and Ministry of finance have made quite a few efforts. Many of leading banks operating in market have made use of the changed rules and regulations such as CRR, interest rate, special offers to the customers such as to open account in Zero balance, non-banking products.

The Commercial Banking Structure in India



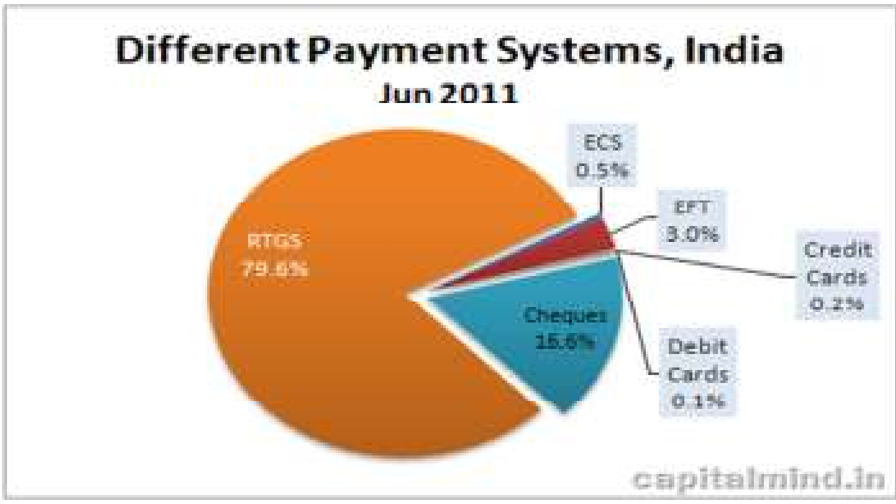
SOME NOTABLE BANKING SERVICES

Electronic Payment Services

Coming across e-governance, e-mail, e-commerce, e-tail etc,a new technology is being developed in US for introduction of e-cheque, which will eventually replace the conventional paper cheque. India, as forerunner to the introduction of e-cheque, the Negotiable Instruments Act has already been amended to include; Truncated cheque and E-cheque instruments.

Real Time Gross Settlement (RTGS)

Real Time Gross Settlement system, introduced in India since March 2004, is a system through which electronics instructions can be given by banks to transfer funds from their account to the account of another bank. The RTGS system is maintained and operated by the RBI and provides a means of efficient and faster funds transfer among banks facilitating their financial operations. As the name suggests, funds transfer between banks takes place on a 'Real Time' basis. RTGS was launched by RBI, which enabled a real time settlement on a gross basis. To ensure that RTGS system is used only for large value transactions and retail transactions take an alternate channel of EFT. The reach and utilization of RTGS has witnessed a sustainable augment since its introduction. In the year 2012-2013 to 2014-2015 transactions related to customer remittances have raised from Rs.68.5 million to Rs.92.8 million. This shows the increasing popularity of RTGS in Indian banking industry.



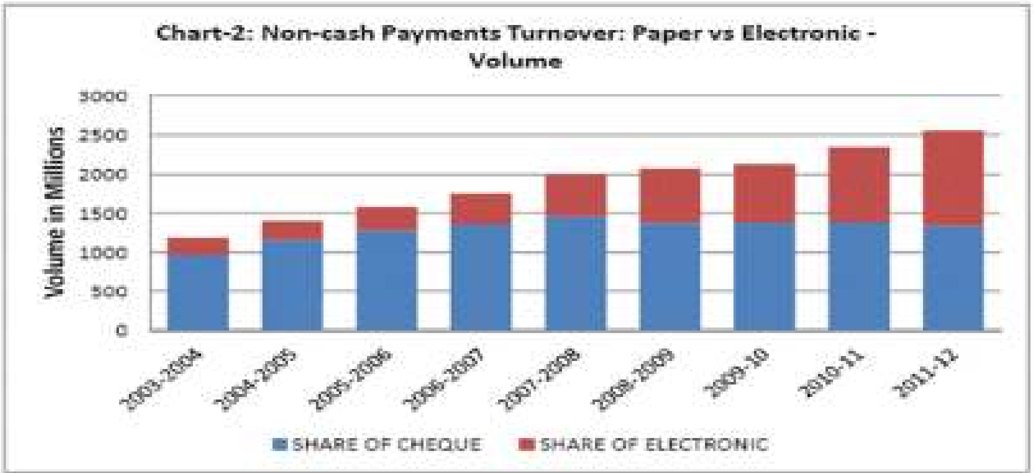
Graph 1: Different Payment Systems

Electronic Funds Transfer (EFT)

Electronic Funds Transfer (EFT) is a system whereby anyone who wants to make payment to another person/company etc. can approach his bank and make cash payment or give instructions/authorization to transfer funds directly from his own account to the bank account of the receiver/beneficiary. Complete details such as the receiver's name, bank account number, account type, bank name, city, branch name etc. should be furnished to the bank at the time of requesting for such transfers so that the amount reaches the beneficiaries' account correctly and faster. RBI is the service provider of EFT. The most widely used EFT programs is Direct deposits, in which payroll is deposited straight into an employees bank account, although it transfer the funds through an electronic terminal including Credit card, ATM and Point of Sales (POS) transactions.

Electronic Clearing Service (ECS)

Electronic Clearing Service is a retail payment system that can be used to make bulk payments/receipts of a similar nature especially where each individual payment is of a repetitive nature and of relatively smaller amount. This facility is meant for companies and government departments to make/receive large volumes of payments rather than for funds transfers by individuals. ECS introduced by RBI in 1995, parallel to Automated Clearing house system. ECS has two variants i.e. ECS Debit clearing services and Credit clearing services.ECS Debit operates on the principles of single credit multiple debits and is used by utility service providers for collection of electricity bills, telephone bills and other charges and also by banks for collection of principal and interest repayments. ECS Credit handles bulk and repetitive payment requirements of corporate and other institutions and is used for transactions like payment of salary, dividend, pension, ECS Debit amount is increased from Rs. 176.5 million to Rs. 226 million from 2012-2013 to 2014-2015 and ECS Credit amount is decreased from Rs. 122.2 million to Rs. 115.3 from 2012-2013 to 2014-2015.



Graph 2: Non Cash Payments Turnover

Automatic Teller Machine (ATM)

Enables the customers to withdraw their money 24 hours a day 7 days a week. It is a devise that allows customer who has an ATM card to perform routine banking transactions without interacting with a human teller. In addition to cash withdrawal, ATMs can be used for payment of utility bills, funds transfer between accounts, deposit of cheques and cash into accounts, balance enquiry etc. Introduced to the Indian Banking industry during 1987 by HSBC Bank in Mumbai. With the advent of ATMs, banks are able to serve the customers outside the banking halls. Now the ATMs are equipped with modern technologies and facilitate various features for its customers which includes Bill payments, ticket booking, Mobile recharges, Ubiquitous multifunction, ATMs biometric, Multilingual ATMs and ATM network switches.. ATM segment witnessed a growth of 24% for the period from 2012-2015. According to available data the number of ATMs which were 92,455 in 2012 is increased to 1,74,988 in year 2015, which is a good sign for whole industry.

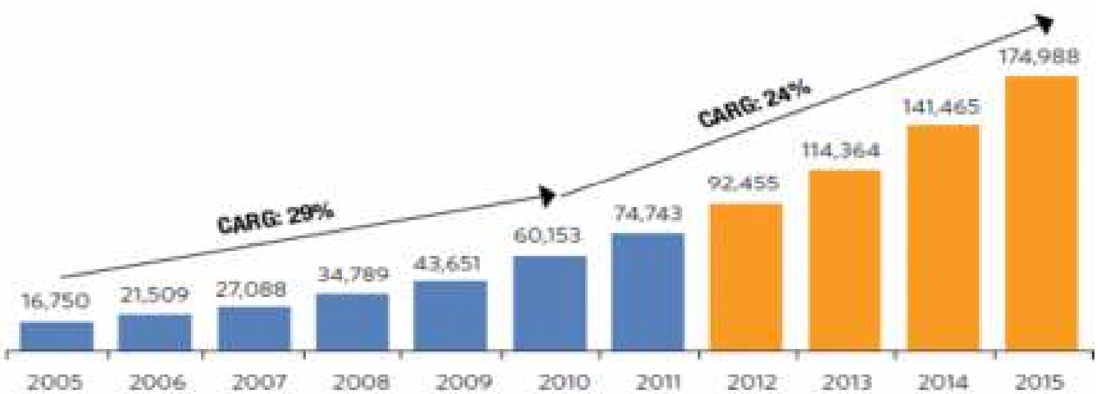


Fig. 2 The number of ATM's in India is growing at a brisk pace...
(Source: Edelweiss IB Estimates; Assumed a 24% growth rate for the period 2012 - 2015)

Graph 3: Number of ATM's in India (Source: Edelweiss IB Estimates)

Point of Sale Terminal

Point of Sale Terminal is a computer terminal that is linked online to the computerized customer information files in a bank and magnetically encoded plastic transaction card that identifies the customer to the computer. During a transaction, the customer's account is debited and the retailer's account is credited by the computer for the amount of purchase.

Tele Banking

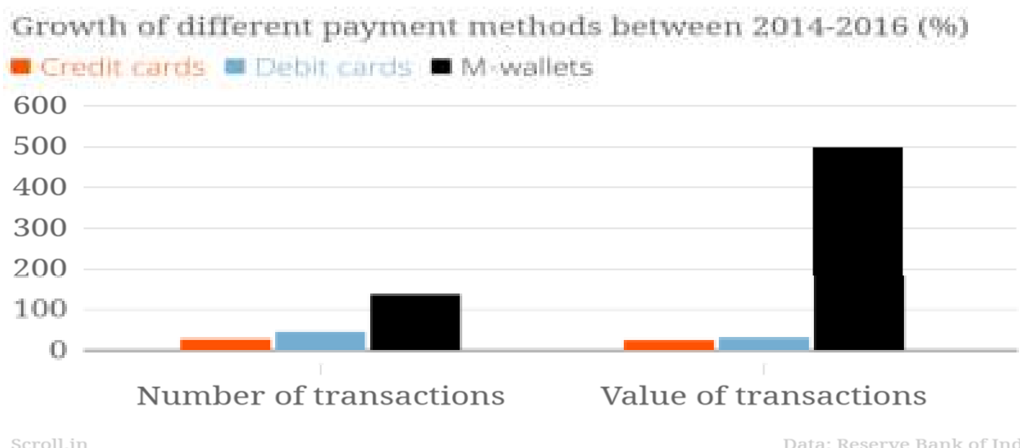
Tele Banking facilitates the customer to do entire non-cash related banking on telephone. Under this devise Automatic Voice Recorder is used for simpler queries and transactions. For complicated queries and transactions, manned phone terminals are used.

Electronic Data Interchange (EDI)

Electronic Data Interchange is the electronic exchange of business documents like purchase order, invoices, shipping notices, receiving advices etc. in a standard, computer processed, universally accepted format between trading partners. EDI can also be used to transmit financial information and payments in electronic form. New and improved variant of EFT was implemented in November 2005 to facilitate one to one fund transfer requirement of individuals as well as corporate. It uses the Structured Financial Messaging Solution (SFMS) for EFT message creation and transmission from the branch to the banks gateway and to the NEFT centre, so it can transfer the funds with more security. With the SFMS facility, branches can participate in both RTGS and NEFT System. Using the NEFT infrastructure, a one –way remittance facility from India to Nepal has also been implemented by the RBI since 15th May, 2008. Overall EFT and NEFT based clearing increased from Rs.394.1 million to Rs.927.6 million in year 2012-2013 to 2014-2015.

Card Based System

Among the Card based delivery mechanisms for various banking services, are Debit Cards and Credit Cards. The amount of Debit Card transactions increased rapidly which was Rs.469.1 million in year 2012-2013 and Rs.808.1 million in year 2014-2015, whereas the amount of Credit Card transactions was Rs.396.6 million in year 2012-2013 and Rs. 615.1 million in the year 2014-2015.



Graph 4: Growth of different Payment Methods

Innovative products and policies

- My Saving Rewards, the programme allow customers to accumulate reward points on a host of savings account transactions such as bill pay, online shopping, EMI payment etc.
- 24x7 fully electronic branches are opened to undertake real time transactions by the customer.
- "E-Locker", an online service for storing important documents for privilege banking customers.
- UID authentication for Aadhaar based payments and enabling corporate to pay taxes online.
- Cash Deposit Machines (CDMs) are installed for cash deposits by customers at these machines by using their ATM cum Debit card.
- E-trade SBI, a web based portal launched in March 2011 to access trade finance services with speed and efficiency.
- To facilitate the Electronic Benefit Transfer (EBT) scheme for routing MGNREGA where all scheduled commercial banks were instructed to open Aadhaar enabled bank accounts of all the beneficiaries.

- Know Your Customer (KYC) norms simplified to facilitate financial inclusion and customer services.
- The RBI is replacing the existing RTGS with a new NGRTGS system which includes which includes few extra features like advanced liquidity management facility, Extensible Mark up Language (XML) based messaging system etc.
- Recently launched scheme of government "Jan Dhan Yojana" with the motive that every family must have a bank account
- the banks installed Solar ATMs, windmills to fulfil their own energy needs, paperless banking etc. SBI is the largest deployer of Solar ATMs.

Challenges to be Faced

Customer Satisfaction and Services

Today, in banking sector customers are more value oriented in their services because they have alternative choices in it. So that each and every bank have to take care about pleasing customers satisfaction. Good customer services are the paramount brand ambassador for any bank for growing its business. Engagement with customer is an opportunity to develop a customer faith in the bank.

Global Banking

It is practically impossible for any nation to exclude itself from world economy. for sustainable development, one has to espouse integration process in the form of liberalization and globalization .The impact of globalization becomes challenges for the domestic enterprises .The foreign banks operating in India are a major challenge for nationalized and private sector banks.

Managing Technology

Acquiring the right technology, deploying it optimally and then leveraging it to the maximum extent is essential to achieve and maintain high service and efficiency standards while remaining cost effective and delivering sustainable return to shareholders.

Market Transparency

According to Fernando (2011) transparency and disclosure norms as part of internationally accepted corporate governance practices are presumptuous importance in the emerging environment. Banks are expected to be more responsive and accountable to the investors. Banks have to unveil in their Balance sheets a plethora of information on the profiles of assets and liabilities, movements in NPAs, capital, shareholdings of the government, value of investment in India and abroad, the total investment made in the equity share,bonds, debentures, aggregate advances etc.

Expansion

Expansion of branch size in order to increase market share is another challenge to combat competitors. Therefore Indian nationalized and commercial banks must spread their wings towards global markets.

CONCLUSION

At present, Information Technology is used for two different avenues in banking- Communication and Business Process Re-engineering. According to studies about 250 million internet users are in India, which is among the top three in the world and this number will grow to 350 million by end of 2015 (Neha, 2014). The E-banking, Mobile banking, Net banking and ATMs facility has gained the success among the customers. Customers are interested in adopting all such technology enabled banking facility. Payment settlement systems like RTGS, NEFT, EFT, ECS, and CTS have proved to be successful. The IT revolution has set the stage for overcoming the challenges the new economy poses keeping in view the extraordinary increase in financial activity across the world. Banks are striving to warfare the competition from global banks and technological innovation that has compelled to rethink policies and strategies. Finally the banking sector need to master a new business model by building management and customer services.

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