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Recent Trends in Indian Banking Sector

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Abstract

The banking sector plays a vital role in the development of one country's economy. The growth of banking sector depends upon the services provided by them to the customers in various aspects. The growing trend of banking services is found significant after the new economic reforms in India. Today, India has a fairly well developed banking system with different classes of banks – public sector banks, foreign banks, private sector banks – both old and new generation, regional rural banks and co-operative banks with the Reserve Bank of India as the fountain Head of the system. Nowadays banking sector acts as a backbone of Indian economy which reflects as a supporter during the period of boom and recession. With the emergence of Privatisation, Globalisation and Liberalisation 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.

Keywords: Liberalisation, Privatisation, Globalisation, Innovation, IT, Research, ATM

Introduction

The banking system in India is significantly different from other Asian nations because of the country's unique geographic, social, and economic characteristics. India has a large population and land size, a diverse culture, and extreme disparities in income, which are marked among its regions. There are high levels of illiteracy among a large percentage of its population but, at the same time, the country has a large reservoir of managerial and technologically advanced talents. Between about 30 and 35 percent of the population resides in metro and urban cities and the rest is spread in several semi-urban and rural centers. The country's economic policy framework combines socialistic and capitalistic features with a heavy bias towards public sector investment. India has followed the path of growth- led exports rather than the "export led growth" of other Asian economies, with emphasis on self-reliance through import substitution. These features are reflected in the structure, size, and diversity of the country's banking and financial sector.

Banking environment has become highly competitive today. To be able to survive and grow in the changing market environment, banks are going for the latest technologies, which is being perceived as an enabling resource that can help in developing more flexible structure that can respond quickly to the dynamics of a fast changing market scenario. It is also viewed as an instrument of cost reduction and effective communication with people and institutions associated with the banking business.

The Banking sector is undergoing the process of radical transformation due to excessive competition of foreign and private players and changes in tastes, preference and habits as well as expectations of customers for newer products. The traditional view of business which was the right product must be available in the right place at the right time is replaced now by a more dynamic and flexible concept that any product should be available at anytime and anywhere. Since the nationalisation of banks in 1969, the public sector banks or the nationalised banks have acquired a place of prominence and since then have been instrumental in ascertaining tremendous progress. The need to become highly customer focused has forced the slow moving public sector banks to adopt a fast track approach. The Indian Banking has finally worked up to the competitive dynamics of new Indian market and its relevant issues concerning the various challenges of Globalisation.

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. 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 unprecedented increase in financial activity across the globe. It is IT which enables the banks in meeting such high expectations of the customers who are more demanding and also tech-savy compared to their counterparts of the yesteryears.

Objectives of the Study

- To examine recent trends and developments in banking sector
- To present the technological developments in Indian banking sector
- To study the emerging trends in banking technology.

Recent Trends and Developments in Banking Sector

Today, we are having a fairly well developed banking system with different classes of banks – public sector banks, foreign banks, private sector banks, regional rural banks and co-operative banks. The Reserve Bank of India (RBI) is at the paramount of all the banks. The RBI's most important goal is to maintain monetary stability (moderate and stable inflation) in India. The RBI uses monetary policy to maintain price stability and an adequate flow of credit. The rates used by RBI to achieve the bank rate, repo rate, reverse repo rate and the cash reserve ratio. Reducing inflation has been one of the most important goals for some time.

Growth and diversification in banking sector has transcended limits all over the world. 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.

There has been considerable innovation and diversification in the business of major commercial banks. Some of them have engaged in the areas of consumer credit, credit cards, merchant banking, internet and phone banking, leasing, mutual funds etc. A few banks have already set up subsidiaries for merchant banking, leasing and mutual funds and many more are in the process of doing so. Some banks have commenced factoring business.

AUTOMATED TELLER MACHINES (ATMs)

ATMs were 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. It 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. 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. The number of ATMs in India is growing at a brisk pace.

CARD BASED SYSTEM

Among the Card based delivery mechanisms for various banking services, are Debit Cards and Credit Cards. The customer of the bank is provided with a special type of credit card which bears customer's name, code etc. The credit amount of the customer account is written on the card with magnetic methods. The computer can read these magnetic spots. When the customer uses this card, the credit amount written on the card starts decreasing. After use of number of times, at one stage, the balance becomes nil on the card. At that juncture, the card is of no use. The customer has to deposit cash in his account for re-use of the card. Again the credit amount is written on the card by magnetic means.

ELECTRONIC CLEARING SERVICES (ECS)

ECS introduced by RBI in 1995, akin 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.

ELECTRONIC FUND TRANSFER

The EFT system enables an account holder of a bank to electronically transfer funds to another account holder with any other bank..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.

REAL TIME GROSS SETTLEMENTS (RTGS)

The introduction of RTGS in 2004 was instrumental in the development of infrastructure for Systematically Important Payment System (SIPS) and it settles all interbank pay-ments and customer transactions above 2 Lakhs. 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 utilisation of RTGS has witnessed a sustain-able increase since its introduction.

NATIONAL ELECTRONIC FUND TRANSFER (NEFT)

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 trans-fer 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.

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 is another innovation, which provided the facility of 24 hour banking to the customer. Tele- banking is based on the voice processing facility available on bank computers. The caller usually a customer calls the bank anytime and can enquire balance in his account or other transaction history. In this system, the computers at bank are connected to a telephone link with the help of a modem.

Voice processing facility provided in the software. This software identifies the voice of caller and provides him suitable reply. Some banks also use telephonic answering machine but this is limited to some brief functions. This is only telephone answering system and now Tele-banking. Tele banking is becoming popular since queries at ATM's are now becoming too long.

INTERNET BANKING

Internet banking enables a customer to do banking transactions through the bank's website on the Internet. It is a system of accessing accounts and general information on bank products and services through a computer while sitting in its office or home. This is also called virtual banking. It is more or less bringing the bank to your computer. In traditional banking one has to approach the branch in person, to withdraw cash or deposit a cheque or request a statement of accounts etc. but internet banking has changed the way of banking. Now everyone can operate all these type of transactions on his computer through website of bank. All such transactions are encrypted; using sophisticated multi-layered security architecture, including firewalls and filters. One can be rest assured that one's transactions are secure and confidential.

MOBILE BANKING

Mobile banking facility is an extension of internet banking. The bank is in association with the cellular service providers offers this service. For this service, mobile phone should either be SMS or WAP enabled. These facilities are available even to those customers with only credit card accounts with the bank.

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.

IMPLICATIONS

The banks were quickly responded to the changes in the industry; especially the new generation banks. The continuance of the trend has re-defined and re-engineered the banking operations as whole with more customization through leveraging technology. As technology makes banking convenient, customers can access banking services and do banking transactions any time and from any ware. The importance of physical branches is going down.

CHALLENGES FACED BY BANKS

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. Another major anxiety before the banking industry is the high transaction cost of carrying Non Performing Assets in their books. The resolution of the NPA problem requires greater accountability on the part of the corporate, greater disclosure in the case of defaults, an efficient credit information sharing system and an appropriate legal framework pertaining to the banking system so that court procedures can be streamlined and actual recoveries made within an acceptable time frame. The banking industry cannot afford to sustain itself with such high levels of NPA's thus, "lend, but lent for a purpose and with a purpose ought to be the slogan for salvation."

The Indian banks are subject to tremendous pressures to perform as otherwise their very survival would be at stake. Information technology (IT) plays an important role in the banking sector as it would not only ensure smooth passage of interrelated transactions over the electric medium but will also facilitate complex financial product innovation and product development. The application of IT and e-banking is becoming the order of the day with the banking system heading towards virtual banking.

As an extreme case of e-banking World Wide Banking (WWB) on the pattern of World Wide Web (WWW) can be visualized. That means all banks would be interlinked and individual bank identity, as far as the customer is concerned, does not exist. There is no need to have large number of physical bank branches, extension counters. There is no need of person-to-person physical interaction or dealings. Customers would be able to do all their banking operations sitting in their offices or homes and operating through internet. This would be the case of banking reaching the customers.

Banking landscape is changing very fast. Many new players with different muscle powers will enter the market. 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. There will be more transparency and disclosures. In the days to come, banks are expected to play a very useful role in the economic development and the emerging market will provide ample business opportunities to harness. Human Resources Management is assuming to be of greater importance. As banking in India will become more and more knowledge supported, human capital will emerge as the finest assets of the banking system. Ultimately banking is people and not just figures.

India's banking sector has made rapid strides in reforming and aligning itself to the new competitive business environment. Indian banking industry is the midst of an IT revolution. Technological infrastructure has become an indispensable part of the reforms process in the banking system, with the gradual development of sophisticated instruments and innovations in market practices.

CONCLUSION:

Indian banking system will further grow in size and complexity while acting as an important agent of economic growth and intermingling different segments of the financial sector. It automatically follows that the future of Indian banking depends not only in internal dynamics unleashed by ongoing returns but also on global trends in the financial sectors. Indian Banking Industry has shown considerable resilience during the return period. The second generation returns will play a crucial role in further strengthening the system. The banking today is re-defined and re-engineered with the use of Information Technology and it is sure that the future of banking will offer more sophisticated services to the customers with the continuous product and process innovations.

Thus, there is a paradigm shift from the seller's market to buyer's market in the industry and finally it affected at the bankers level to change their approach from "conventional banking to convenience banking" and "mass banking to class banking". The shift has also increased the degree of accessibility of a common man to bank for his variety of needs and requirements. Adoption of stringent prudential norms and higher capital standards, better risk management systems, adoption of internationally accepted accounting practices and increased disclosures and transparency will ensure the Indian Banking industry keeps pace with other developed banking systems.

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