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A STUDY ON BANKING FACILITIES OF MODERN GENERATION IN INDIA

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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. Today the banking industry has been experiencing a totally unexpected paradigm shift, and in this age of advanced technology and modern resources the bankers have to first properly define what a new generation banks is as there is no definition that exists, that defines what a new generation bank/banking is and how they can be operated in a sustainable manner not just witnessing profit. But, witnessing existence on a long run for a better tomorrow. This paper enlightens the knowledge light on new generation banking and its innovative products and channels.

Keywords: Banking Sector, Recent Trends and Developments, Technologies, Banking Products and Services.

INTRODUCTION

The Banking sector has been immensely benefited from the implementation of superior technology during the recent past, almost in every nation in the world. Productivity enhancement, innovative products, speedy transactions seamless transfer of funds, real time information system, and efficient risk management are some of the advantage derived through the technology. Information technology has also improved the efficiency and robustness of business processes across banking sector. India's banking sector has made rapid strides in reforming 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. IT in Banking Indian banking industry, today is in the midst of an IT revolution. A combination of regulatory and competitive reasons has led to increasing importance of total banking automation in the Indian Banking Industry.

Financial innovation in India is key to making growth inclusive by connecting hundreds of millions to the banking system, said panellists at the World Economic Forum's India Economic Summit. The deregulation of financial service industry and increased competition with in investment banking undoubtedly led to increased emphasis on the ability to design new products, develop better process, and implement more effective solution for increasingly complex financial problems. These financial innovations are a result of number of Government regulations, tax policies, globalization, liberalization, privatization, integration with the international financial market and increasing risk in the domestic financial market. Financial innovation is the process through which finance managers or intermediary institutions in financial markets add value to existing plain vanilla products that satisfy the user needs. According to John Finnerty, "Financial Innovation involves the design, the development, and the implementation of innovative financial instruments and processes, and the formulation of creative solutions to problems in finance". The various innovations in banking and financial sector are ECS, RTGS, EFT, NEFT, ATM, Retail Banking, Debit & Credit cards, free advisory services, implementation of standing instructions of customers, payments of utility bills, fund transfers, internet banking, telephone banking, mobile banking, selling insurance products, issue of free cheque books, travel cheques and many more value added services.

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 this are 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.



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REVIEW OF LITERATURE

Financial innovations lower cost of capital, reduce financial risks, improve financial intermediation, and hence welfare enhancing. The primary function of financial system is to facilitate the allocation and deployment of economic resources in an uncertain environment (Merton, 1992).

Financial innovation is helpful in ensuring smooth functioning and improves the overall efficiency of the system by minimizing cost and reducing risk. More generally, financial innovation has been a central force driving the financial system toward greater economic efficiency (Merton and Bodie 2005).

Avasthi & Sharma (2000-01) have analyzed in their study that advances in technology are set to change the face of banking business. Technology has transformed the delivery channels by banks in retail banking. It has also impacted the markets of banks. The study also explored the challenges that banking industry and its regulator face.

B. Janki (2002) analyzed that how technology is affecting the employees' productivity. There is no doubt, in India particularly public sector banks will need to use technology to improve operating efficiency and customer services. The focus on technology will increase like never before to add value to customer services, develop new products, strengthen risk management etc. the study concludes that technology is the only tool to achieve their goals.

Jalan, B. (2003), IT revolution has brought about a fundamental transformation in banking industry. Perhaps no other sector has been affected by advances in technology as much as banking & finance. It has the most important factor for dealing with the intensifying competition & the rapid proliferation of financial innovations.

Mittal, R.K. & Dhingra, S. (2007) studied the role of technology in banking sector. They analyzed investment scenario in technology in Indian banks but this study was related to the time period before the Information Technology Act and at that time technology in Indian banks was very low. But both the researchers nicely presented their views.

Padhy, K.C. (2007) studied the impact of technology development in the banking system and he also highlights the future of banking sector. The core competencies will provide comparative advantages.

OBJECTIVES

- To examine the new generation banking sector and its products/services
- To present the technological developments in Indian banking sector
- To study the emerging trends in banking technology.

RESEARCH METHODOLOGY

This research is based on the analysis of the secondary data and the research proposes to throw light on the banking services of new generation banking in the Indian Banking Sector.

RECENT TRENDS AND DEVELOPMENT 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



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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.

New Generation Banks

Today, banks claim themselves as new generation banks on the basis of certain services they render or the time period they have being formed or bought into existence. But it should not be done so because, it totally depends on how they function, in terms of implementing strategies, creating and initiating new investment plans managing funds and non-performing assets, looking on to the way how their work force is recruited and retained by analyzing their true caliber and so on.

“New generation banks are not just banks who are involved in the implementing a new strategy for the sake of survival. But banks who are involved in the process of creating a paradigm shift to overcome the ever-changing market requirements and customer preferences by the way they organize the internal and external activities, and initiatives by considering traditional human values and using modern technology. That may result in creating larger revenues by properly investing and managing the funds to create optimum profit and goodwill for the long run of the business can be considered and proved as sustainable”. Similarly, ages pass on and so does time, thus organizations who are involved in creating change and surviving the change by implementing innovative and effective strategies to serve the future generations to come can be considered so. Thus, in this process the bank that excels with its innovative strategy is to be considered as a new generation bank as those strategies used to exhibit customer service and welfare is just a marketing strategy which brings in customers but on a long run it's only the internal affairs and money management strategy that helps a business retain its position in the market.

DEVELOPMENT IN NEW GENERATION BANKS

Electronic Payment Services - E Cheques

Nowadays we are hearing about e-governance, e-mail, e-commerce, e-tail etc. In the same manner, a new technology is being developed in US for introduction of e-cheque, which will eventually replace the conventional paper cheque. India, as harbinger 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. Therefore, money can reach the beneficiary instantaneously and the beneficiary's bank has the responsibility to credit the beneficiary's account within two hours.

National Electronic Funds Transfer (NEFT)

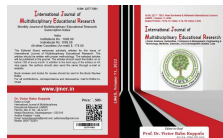
The transfer of money from the customer remitting it to the beneficiary account usually takes place on the same day. Settlement or clearance of funds takes place in batches as specified by the guidelines by the RBI. Any amount of money can be transferred using NEFT, making it usually the best method for retail remittances. Customers with Internet banking accounts can use the NEFT facility to transfer funds nationwide on their own. Funds can also be transferred via NEFT by customers by walking into any bank branch (which is NEFT-enabled) and leaving relevant instructions for such transfer - either from their bank accounts or by payment of cash. Transfer of funds to Nepal using NEFT, is also allowed subject to limits.

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 (savings or current account), 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.

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.



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Automatic Teller Machine (ATM)

Automatic Teller Machine is the most popular device in India, which enables the customers to withdraw their money 24 hours a day 7 days a week. It is a device 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.

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. With recent developments in handset designs and mobile software, this is a trend which has already caught focus of majority of the banks. 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.

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 device 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.

Challenges Faced by Banks, vis-à-vis, IT Implementation

It is becoming increasingly imperative for banks to assess and ascertain the benefits of technology implementation. The fruits of technology will certainly taste a lot sweeter when the returns can be measured in absolute terms but it needs precautions and the safety nets. The increasing use of technology in banks has also brought up 'security' concerns. To avoid any mishaps on this account, banks ought to have in place a well-documented security policy including network security and internal security. The passing of the Information Technology Act has come as a boon to the banking sector, and banks should now ensure to abide strictly by its covenants. An effort should also be made to cover e-business in the country's consumer laws. Some are investing in it to drive the business growth, while others are having no option but to invest, to stay in business. The choice of right channel, justification of IT investment on ROI, e-governance, customer relationship management, security concerns, technological obsolescence, mergers and acquisitions, penetration of IT in rural areas, and outsourcing of IT operations are the major challenges and issues in the use of IT in banking operations.



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Future Outlook

Everyone today is convinced that the technology is going to hold the key to future of banking. The achievements in the banking today would not have made possible without IT revolution. Therefore, the key point is while changing to the current environment the banks have to understand properly the trigger for change and accordingly find out the suitable departure point for the change.

CONCLUSION

In the days to come, banks are expected to play a very useful role in the economic development and the emerging market will provide business opportunities to harness. As banking in India will become more and more knowledge supported, capital will emerge as the finest assets of the banking system. Ultimately banking is people and not just figures. To conclude it all, the banking sector in India is progressing with the increased growth in customer base, due to the newly improved and innovative facilities offered by banks. The economic growth of the country is an indicator for the growth of the banking sector. The onus for this lies in the capabilities of the Reserve Bank of India as an able central regulatory authority, whose policies have shielded Indian banks from excessive leveraging and making high risk investments. By the government support and a careful re-evaluation of existing business strategies can set the stage for Indian banks to become bigger and stronger, thereby setting the stage for expansions into a global consumer base. The long term success by any bank cannot be achieved without the development of new business ideas, innovative products and services and intense focus on customer retention. Banks have to instill in their DNA the enablement of a positive and consistent customer experience that can transform them into trusted advisers. At no time in banking history has this been more important. Although this article gives a view on what new age banking and its trends what their customers expect the banks of tomorrow to look like and what they should focus on, the right choice for adoption may vary from bank to bank.

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