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TECHNOLOGICAL INNOVATIONS & CHALLENGES IN INDIAN BANKING

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Abstract:

Banking sector plays a key role in economic development of every country. The growth and development in Indian banking sector is leaps and bounds in India for the last two decades. In the implementation at various stages to smoothen the backend and front end operations. The banks need to optionally leverage technology to increase penetration, improve their productivity and efficiency, deliver cost effective products and nation as a whole. Besides making banking products and services affordable and accessible ,it's simultaneously ensures viability and profitability of providers .Technology allows transactions to take place faster and offers unparallel convenience through various delivery channels .As expected services, speed in service delivery and a range of products offered by banks , competitive environment in banking. This paper will discuss some of the technological innovations and challenges in Indian banking sector.

Key Words: Banking, Technology, Innovation, Economy.

Introduction:

Banking in India has been through a long journey. Indian Banking Sector has witnessed a number of changes. In the 1990s, the banking sector in India saw greater emphasis being placed on Technology and Innovation. Banks began to use technology to provide better quality of services at greater speed. Internet banking

and mobile banking made it convenient for customers to do their banking from geographically diverse places. Now all the banks have started with the concept of multi- channels, like ATMs, credit cards, debit cards, telephone/mobile banking, internet banking, call centers, etc. The role of banking is redefined from a mere

financial intermediary to service provider of various financial services under one roof acting like a financial supermarket. Intense competition among the banks has redefined the concept of the entire banking system. The banks are looking for new ways not only to attract but also to retain the customers and gain competitive advantage over their competitors.

Objective of the Study:

- To study how innovations have contributed to the development of Indian banking.
- To examine the challenges faced by Indian banks.

Technological Innovations in Indian Banking:

Over the years, the banking sector in India has seen a number of changes. Most of the banks have begun to take an innovative approach towards banking with the objective of creating more value for customers. Information technology has given rise to new innovations in the product designing and their delivery in the banking and finance industries. Technology offers a chance for banks to build new systems that address a wide range of customer needs including

many that may not be imaginable today. Financial innovation associated with technological change totally changed the banking philosophy and that is further tuned by the competition in the banking industry. Challenging business environment within the banking system create more innovation in the fields of product, process and market. Today, we have electronic payment system along with currency notes.

National Automated Clearing House Association (NACHA):

It manages the development, administration, and governance of the ACH Network, the backbone for the electronic movement of money and data in the United States. It is funded by the financial institutions it governs. The ACH Network serves as a network for direct consumer, business, and government payments, and annually facilitates billions of payments such as direct deposit and direct payment. Used by all types of financial institutions, the ACH Network is governed by the NACHA Operating Rules, a set of rules that guide risk management and create certainty for all participants.

NACHA is a not-for-profit association and represents nearly

11,000 financial institutions via 11 regional payments associations and direct membership.

NACHA is not directly involved in the ACH transactions that flow to and from organizations and financial institutions, nor does NACHA send communications to individuals or organizations about individual ACH transactions. Various phishing scams have attempted to use references to NACHA to scam people or get them to install malware.

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.

Bank NET:

Bank net is an internet based communication network. It provides speed of financial transaction. Bank net is set up in 1991 by the RBI; this backbone is meant to facilitate transfer of inter-bank messages

within in India by public sector banks who are members of this net work.

National Electronic Funds Transfer (NEFT):

NEFT is an Indian system of electronic transfer of money from one bank or bank branch to another. Under NEFT, individuals, firms and corporate can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme. The funds under NEFT can be transferred by individuals, firms or corporate maintaining accounts with a bank branch. Even individuals not having a bank account can deposit cash at the NEFT-enabled branches with instructions to transfer funds using NEFT. However, such cash remittances will be restricted to a maximum of Rs.50, 000/- per transaction. Such walk-in-customers have to furnish full details including complete address, telephone number, etc. NEFT, thus, also help in transfer of funds even without having a bank account. This is a simple, secure, safe, fastest and cost effective way to transfer funds especially for Retail remittances. National Electronic Funds Transfer (NEFT) is an Indian system of electronic transfer of

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Debit Card:

Debit card is a plastic card which provides an alternative payment method to cash when making purchases. Functionally, it can be called an electronic check, as the funds are withdrawn directly from either the

bank account or from the remaining balance on the card.

Credit Card:

A credit card is part of a system of payments named after the small plastic card issued to users of the system. It is a card entitling its holder to buy goods and services based on the holder's promise to pay for these goods and services. The issuer of the card grants a line of credit to the consumer (or the user) from which the user can borrow money for payment to a merchant or as a cash advance to the user.

Internet Banking:

It is a service provided by banks so that people can find out information about their bank account, pay bills etc using the Internet. Internet Banking allows you to conduct bank transactions online, instead of finding a bank and interacting with a teller. In a broad sense, it is the use of electronic means to transfer funds directly from one account to another, rather than by cheque or cash.

Automated Teller Machines (ATMs):

ATMs are widely used electronic channels in banking. It is operated by plastic card with its special features. It is a computer controlled device at which the customers can

make withdrawals, check balance without involving any individuals. ATM can be interior (i.e., located in the branch premises) or exterior (located anywhere outside the branch premises). The banks increased their penetration further with the total number of ATMs reaching 0.18 million in 2015. However, there was a decline in growth of ATMs of both Public Sector Banks as well as Private Banks. Public Sector Banks recorded a growth of 16.7 per cent during 2014-15 maintaining a share of around 70 per cent in total number of ATMs.

DEMAT:

Demat account, the abbreviation for dematerialized account, is a type of banking account which dematerializes paper-based physical stock shares.

Real Time Gross Settlement (RTGS):

RTGS is an electronic form of funds transfer where the transmission takes place on a real time basis. In India, transfer of funds with RTGS is done for high value transactions, the minimum amount being Rs 2 lakh. The beneficiary account receives the funds transferred, on a real time basis.

Challenges:

Developing countries like India, has a huge number of people who don't have access to banking services due to scattered and fragmented locations. But if we talk about those people who are availing banking services, their expectations are raising as the level of services are increasing due to the emergence of Information Technology and immense competition between the services and products provided by different banks. Since, foreign banks are playing in Indian market, the number of services offered has increased and banks have laid emphasis on meeting the customer expectations. India's banking sector has made rapid strides in reforming and aligning itself to the new competitive business environment. 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.

High transaction costs:

A major concern before the banking industry is the high transaction cost of carrying non- performing assets in their

books. The growth led to strains in the operational efficiency of banks and the accumulation of nonperforming assets (NPA's) in their loan portfolios.

Regulatory pressure:

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.

Credit risk:

Liquidity, interest rate risk, market risks
Legal risk

Global banking:

The impact of globalization becomes challenges for the domestic enterprises as they are bound to compete with global players. The numbers of Foreign Banks have become a major challenge for Nationalized and private sector banks.

Financial inclusion :

Financial inclusion has become a necessity in today's business environment. Whatever is produced by business houses, that has to be under the check from various

perspectives like environmental concerns, corporate governance, social and ethical issues. In India, RBI has initiated several measures to achieve greater financial inclusion, such as facilitating, Basic savings bank deposit accounts" and GCCs for small deposits and credit.

Conclusion:

The Banking sector in India has become stronger in terms of capital and the number of customers. It has become globally competitive and diverse aiming, at higher productivity and efficiency. Exposure to worldwide competition and deregulation in Indian financial sector has led to the emergence of better quality products and services. Reforms have changed the face of Indian banking and finance. The banking sector has improved manifolds in terms of Technology, Deregulation, Product & Services, Information Systems, Etc. The pre and post liberalization era has witnessed various environmental changes which directly affects the aforesaid phenomena. It is evident that post liberalization era has spread new colors of growth in India, but simultaneously it has also posed some challenges. Banks have to adopt a holistic approach to fulfill the ever changing needs

of customers and to grab a better market share. Development of sophisticated products with low cost technology is the key. This calls for in- depth analysis of customer needs the market and competitor

trends. This analysis plays a very important role in devising new strategies, products and services. The better the banks understands their customers, the more successful they will be meeting their needs.

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