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## **CONTEMPORARY BANKING PRACTICES IN INDIA.**

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### **ABSTRACT**

*Banks are one of the important professional institutions that interact with the masses and hold a unique & intermediary position in the economy. It influences the economic development of the country both in terms of Quality and Quantity. As in today's era needs and perception of customers are changing and other challenges too, the old way of doing banking is no more successful. India's banking system has seen some major financial innovations in the past decades which lead to tremendous improvements in banking services and operations such as ATM banking, NEFT,RTGS, IMPS, Online and Mobile banking. There is a further lot more scope to go forward The objective of this paper is to find out the benefits and challenges of technology driven banking trends and to study how innovations have contributed to the development of Indian Banking. The necessitate of this millennium is to devise such a system that encourages the efficiency of investment, focus on future sustainability and can provide better customer service which leads towards satisfaction. The paper concludes by focusing on the current challenges, opportunities and future trends and scope of Innovative practices by Indian banking sector.*

### **Introduction**

Banks plays an important role in the economic development of developing countries. Economic development involves investment in various sectors of the economy. The banking industry in India has a huge canvas of history, which covers the traditional banking practices from the time of Britishers to the reforms period, nationalization to privatization of banks and now increasing numbers of foreign banks in India. The banks collect savings for investment in various projects . Current banking sector has come up with a lot of initiatives that oriented to providing a better customer services with the help of new technologies. Banking sector mirrors the larger



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economy its linkages to all sectors make it proxy for what is happening in the economy as a whole.. The going developments in the global markets offer so many opportunities to the banking sector. In the competitive banking word improvement day by day in customer services is the most useful tool for their better growth. Bank offers so many changes to access their banking and other services which are technology based.

## **Banking Innovation through IT**

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. The bank which used the right technology to supply timely information will see productivity increase and thereby gain a competitive edge..

## **FINANCIAL INNOVATION**

Financial innovation is key to survival of banks in contemporary banking environment.. 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 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, 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 Information technology and the communications networking systems have revolutionaries the working of banks and financial entities all over the world.

## **Literature Review**

**Dannenberg and Kellner (1998)**, in their study, overviewed the opportunities for effective utilization of the Internet with regard to the banking industry. The authors evaluated that appropriate application of today's cutting edge technology could ensure the success of banks in the competitive market.



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**Talwar (1999)** examined the IT Revolution in banking sector which had not only provided improved service to the customer, but also reduced the operational cost. The author brought out that computerization of banks, introduction of Real Time Gross Settlement System, setting up of Internet, Electronic Payment Product had ensured better resource management, systematic efficiency and substantially reduced inter-branch reconciliation entries. However fear of hacking, tampering of data, secrecy maintenance were certain issues which pose threats on usage of electronic banking

**Kamesam (2001)** studied the changes that took place in the Indian banking industry which emphasized on technological advancements and profitability in banks. Technology has helped in centralized data storage with decentralized processing which has helped in reduction of costs and NPAs.

**Durkin and Howcroft (2003)** evaluated that the banker-customer relationship was improved through mobile, phone and internet banking. The authors found that new technology has made the banks very competitive and profitable and internet has played a key role in it. Perception of bankers and customers regarding the use of internet was examined. They pointed out that as consumer usage of remote bank delivery channels increases, relationship management will become more important. Further, the combination of traditional and new delivery channels, if followed, can help to improve their productivity and profitability.

**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.

**Suresh (2008)** highlighted that recently developed e-banking technology had created unpredicted opportunities for the banks to organize their financial products, profits, service delivery and marketing

**Subir Gokarn, Deputy Governor, Reserve Bank of India (2012)**, opines that given the constraints that Indian banks may face in human capital and financial capital, knowledge capital is advocated to assume center stage. Knowing your customer is knowing just not his name and address but more importantly his



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needs and aspirations. The author argues that the financial sector must practice KYC (know your customer) in order to Grow with Your customer (GYC)

From the above reviews it is observed that the banking industries itself adopted various innovative schemes for furtherance of their business and to attract more and more customers. These has resulted their sustainability and keep their brand image even in the competitive environment. Further, technology is one of the important segments where maximum stresses are provided for dissemination of innovative ideas and it is observed that major innovation took place in this field in recent years.

## **Objective of the study**

- To explore the technology driven Innovative practices taken by the Indian banking industry for future sustainability and enhanced customer service.
- To find out the current challenges, opportunities of technology driven Innovative practices.

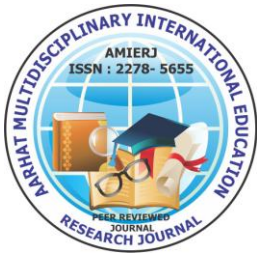
## **Research Methodology**

The source of the information in this research study is the secondary data in order to accomplish the above objectives. All the available Journals, literature Reviews, reports and data, Articles, papers, magazines, websites which provided necessary information have gone through and.

## **Technology driven various Innovative practices in different areas of Banking Sector**

Banks today, including the PSU banks, are aggressively adopting the latest technology in order to improve product offerings, customer service, and operational efficiency and risk management systems. This is not only a source of competitive advantage but is increasingly becoming a necessity for the banks.

**Electronic Payment Services** — E Cheques: Now-a-days 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.



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## Debit Card and Credit Card

A **debit card** is an electronic card issued by a bank which allows bank clients access to their account to withdraw cash or pay for goods and services. This removes the need for bank clients to go to the bank to remove cash from their account as they can now just go to an ATM or pay electronically at merchant locations. This type of card, as a form of payment, also removes the need for cheques as the debit card immediately transfers money from the client's account to the business account.

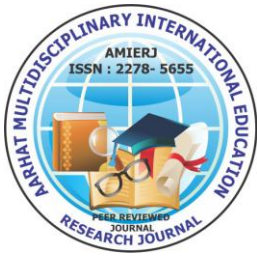
A **credit card** is issued by a financial company giving the holder an option to borrow funds, usually at point of sale. Credit cards charge interest and are primarily used for short-term financing. Interest usually begins one month after a purchase is made and borrowing limits are pre-set according to the individual's credit rating.

## National Electronic Fund Transfer (NEFT)

According to Reserve Bank of India, National Electronic Funds Transfer (NEFT) is a nation-wide payment system to facilitate one-to-one funds transfer. 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. 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.

## 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.

### **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.

### **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.

### **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.



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## **Financial inclusion**

The spread of digital connectivity and mobile phones have created attractive opportunities in the Indian financial inclusion landscape. In particular, technology promises to enable hundreds of millions of people to access financial services for the first time due to its wide reach, convenience and low cost of delivery.

India is experimenting with several new ideas in financial inclusion in almost all areas requiring immediate focus —banking and payment channels, technology platforms, regulatory. Significant progress is required in financial inclusion.

## **Emphasis on Customer Relationship Management (CRM):**

Customer relationship Management is the most important factor in the retention of the customers when each and every bank is providing the same services. The banks are spending more on the customer delight and up gradation of the services. When all the banks are providing almost the same products and services, CRM is very much required in the sector.

## **Mergers, Acquisitions and Takeovers:**

Merger, acquisitions and takeover are the trends in the banking industry now a day across the globe as the competition have opened up in the industry. The banks are increasing their size with the organised and unorganised growth by adding up new customers through new products and schemes as well as acquiring smaller banks in the fray. The biggest example of merger is of SBI and group banks into one bank, thereby making a largest entity in India.

## **Demat account**

If you are a share holder or interested in share market or think about purchasing or selling the shares, Banks helps you for all these works. Now banks purchase or sale your share as your order or request. You can only inform about your decisions. Now you can avoid multiplications, duplications and pilferage of share certificates. By opening a demat account, you can protect your securities from damage, loss and theft. Demat account stands from dematerialization of accounts.

## **Global card**

This is the latest in the market, which enables the card holders to use the card in any country including the country where the card has been issued. One can spend in any foreign currency and





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settle the due in medium of local currency. The credit limit is based on the BTQ (basic travel quota).

## **Direct Benefit Transfer/Aadhar based Payments.**

The latest move by Govt. of India is DBT and Aadhar based payments where by amount is directly credited in the account of beneficiary thereby reducing time lag and any duplicity and frauds.

## **CHALLENGES AHEAD FOR BANKING SECTOR**

This dependency on the network and technology brings lot of challenges in managing, maintaining and optimizing the performance of retail banking networks. Besides, there are network management challenges, whereby keeping these complex, distributed networks and applications operating properly in support of business objectives becomes essential. Specific challenges include ensuring that account transaction applications run efficiently between the branch offices and data centers. Banks in India will now have to work towards a vision to have an enhanced retail delivery system. Such a system would include transformed branches, enhanced telephone services, and internet banking functions that provide a consistently positive multi-channel experience for the customer. Some of the challenges that the banks are facing today are:

- Competition from private banks
- Competition from MNCs
- Managing diversified needs of customers
- Diminishing customer loyalty
- Coping with regulatory reforms
- Restructuring and reorganizing banks' setup towards thinner and leaner administrative offices;
- Maintaining high quality assets.
- Management of impaired assets
- Keeping pace with technology up-Gradations
- Problem of Non-Performing Assets (NPA)

The banking industry is changing at a phenomenal speed. While at the one end, we have millions of savers and investors who still do not use a bank, another segment continues to bank with



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a physical branch and at the other end of the spectrum, the customers are becoming familiar with ATMs, e-banking, and cashless economy. This shows the immense potential for market. Banks are setting up alternative delivery channels to contain operating costs like off-site ATMs, internet banking, telebanking, outsourcing, centralized transaction processing. The Indian banking sector is thus at an exciting point in its evolution.

## **Opportunities:**

The opportunities are immense — to enter new businesses and new markets, to develop new ways of working, to improve efficiency, and to deliver higher levels of customer service. The process of change and restructuring that must be undergone to capitalize on these opportunities poses a challenge for many banks.

Banking industry's opportunities includes

- A growing economy
- Banking deregulation
- Increased client borrowing
- An increase in the number of banks
- An increase in the money supply
- Low government-set credit rates

## **Conclusion**

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 innovation India is one of the top 10 economies in the world, where the banking sector has tremendous potential to grow. The number of ATMs has doubled over the past few years, with more than 100,000 in the country at present (70 per cent in urban areas). They are estimated to further double by 2017, with over 50 per cent expected to be set up in small towns.. At the start of 2013, only 2 per cent of banking payments went through the electronic system in the country. Today, mobility and customer convenience are viewed as the primary factors of growth and banks are continuously exploring new technology, with terms such as mobile solutions and cloud computing being used with greater regularity. However, Indian banking industry faced the numerous challenges such as increasing competition, pressure on



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Trends, and systemic changes to align with international standards have necessitated a re-evaluation of strategies and processes in order to remain competitive in this dynamic environment. Banks have to adopt a holistic approach to fulfill the ever changing needs of customers and to grab a better market share. Due care will have to be made while embracing technology and transforming traditional touch points to electronic ones, so that human touch with customers is also not lost.. Strategizing organizational effectiveness and operational efficiency will govern the survival and growth of profits; besides bringing changes in the mindset of the employees, which is imperative with the changing times.

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