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Technological Innovations in Indian Banking Sector: Changed face of Banking

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Abstract

Indian banking system touches the lives of millions of persons and it is rising at a fast pace. Banking industry in India is facing number of challenges like varying wants and perceptions of customers, new regulations from time to time and great advances in technologies. The strain of meeting these challenges have bound banks to alter the old ways of doing business. The research paper stress on how the technology has distorted the face of banking in India. India's banking system has seen some main financial innovations in the history decades which lead to wonderful improvements in banking services and operations. The a assortment of innovations in banking and financial sector are ECS, RTGS, EFT, NEFT, ATM, Retail banking, Debit and Credit cards, free advisory services, online banking, mobile banking and many additional value added products and services. This paper also highlights the remuneration and challenges of varying banking trends. Banks are investing greatly in adoption of these innovations. The require of hour is to aim such a system that encourages the effectiveness of investment in innovations and widens the gap among revenues and costs concerned with reference to technological up gradation.

Keywords:

Indian Banking, Financial Innovations, Technological Changes, Challenges.

I. INTRODUCTION

The banking industry in India has a vast canvas of history, which covers the usual banking practices from the time of Britishers to the reforms period, nationalization to privatization of banks and now rising numbers of foreign banks in India. Consequently, Banking in India has been through an extended journey. Indian Banking Sector has witnessed a number of changes. It has undergone an enormous alteration in the years since Independence. The rate of alteration was mostly high in the 1990s and 2000s, when a number of innovations distorted the way banking was supposed and it was the result of independent and induced needs of the environment. In the 1990s, the banking sector in India marked improved stress being placed on technology and innovation. Banks began to employ technology to provide improved quality of services at better speed. Information technology has completed it suitable for customers to do their banking from in nature diverse places which earlier remain uncovered.

II. FINANCIAL INNOVATION

Financial innovation is key to continued existence of banks in contemporary banking environment. The significance of financial modernism is extensively recognized. Many leading scholars, including Miller (1986) and Merton (1992), have painted the significance of products and services in the financial arena. Innovative information are obvious in varied industries and in diverse forms. For example innovation in product development is one of the forms of originality that has been used by banks. Right from the commencement stage of financial modernization innovations have been playing main roles in curtailing financial exclusions and getting better the ways banking services are rendered to people. Financial innovation is one of the usually used banking terminologies. It has been used to explain any modify in the scale, capacity and delivery of financial services.

The deregulation of financial service industry and greater than before competition with in investment banking certainly led to bigger stress on the aptitude to design new products, develop better process, and implement more effectual solution for more and more complex financial trouble. These financial innovations are a consequence of number of Government system, tax policies, globalization, liberalization, privatization, integration with the international financial market and rising danger in the domestic financial market. Financial innovation is the procedure from side to side which finance managers or intermediary institutions in financial markets add value to existing plain vanilla products that satisfy the consumer needs. According to John Finnerty, Financial Innovation involves the plan, the development, and the functioning of inventive financial instruments and processes, and the formulation of creative solutions to trouble in finance".

III. REVIEW OF LITERATURE

Financial innovations inferior cost of capital, reduce financial risks, get better financial intermediation, and hence welfare enhancing. The primary purpose of financial system is to make easy the allocation and use of economic resources in an unsure environment (Merton, 1992). Financial novelty is obliging in ensuring smooth performance and improves the in general competence of the system by minimizing cost and dropping risk. More usually, financial modernism has been a central power heavy the financial system toward better economic competence (Merton and Bodie 2005).Avasthi & Sharma (2000-01) have analyzed in their study that advances in technology are put to change the face of banking business. Technology has distorted the release channels by banks in retail banking. It has also impacted the markets of banks. The paper also explored the challenges that banking industry and its controller face. B. Janki (2002) analyzed that how technology is moving the employees' productivity. There is no doubt, in India chiefly public sector banks will require to utilize technology to get better operating competence and customer services. The study mainly focus on technology will raise like never before to add value to customer services, develop new products, strengthen risk management etc. the paper concludes that technology is the only instrument to attain their objectives. Technological change and the arrival of the internet are amongst the mainly dramatic and demanding areas of change for the sector. Technological innovations have shown the better productivity as stated by Rishi and Saxena (2004). Study recognized that technological innovations in the banking sector in industrialized countries have been exposed to raise productivity of banking industry around the world. Arora (2003) highlighted the meaning of bank conversion. Technology has a best role in facilitating connections in the banking sector and the impact of technology functioning has resulted in the foreword of new products and services by a variety of banks in India. Hua G. (2009) investigates the online banking receipt in China by conducting an test to investigate how users' awareness about online banking is affected by the supposed ease of utilize of website and the privacy policy provided by the online banking website. Jalan, B. (2003), IT revolution has brought about a basic alteration in banking industry. Possibly no other sector has been affected by advances in technology as much as banking & finance. It has the mainly significant factor for dealing with the increasing competition & the fast explosion of financial innovations. Mittal, R.K. & Dhingra, S.(2007) studied the function of technology in banking sector. They analyzed investment situation in technology in Indian banks but this study was connected to the time period before the Information Technology Act and at that time technology in Indian banks was very short. But both, the researchers satisfactorily obtainable their views. Padhy, K.C. (2007) studied the impact of technology development in the banking system and he also tourist attractions the future of banking sector. The core competencies will give comparative compensation.

From the above reviews it is experiential that the banking industries itself adopted a variety of inventive schemes for maintenance of their business and to draw more and more customers. These has resulted their sustainability and stay their brand image even in the aggressive environment. Additional, technology is one of the significant segments where utmost stresses are provided for distribution of inventive ideas and it is experiential that main innovation took place in this field in recent years.

IV. OBJECTIVE OF THE STUDY

This study aims to examine and explain a variety of innovative instruments introduced by banks in recent times.

- To find how innovations have contributed to the development of Indian banking.
- To study the challenges faced by Indian banks in the varying scenario.

V. INNOVATIONS IN BANKING SECTOR

Banking industry in India has also achieved a original height with the varying times. Customer services and customer pleasure are prime everyday jobs of banks now days. Information technology has known increase to new innovations in the product designing and their release in the banking and finance industries. Technology offers a possibility for banks to build new systems that attend to a wide range of customer wants as well as many that may not be imaginable today. Banking from side to side internet has emerged as a strategic resource for achieving superior competence, control of operations and reduction of cost by replacing paper based and labor concentrated methods with automatic processes thus leading to upper efficiency and productivity. Financial innovation associated with technological alter completely changed the banking philosophy and that is further tuned by the opposition in the banking industry

ATM

An automated teller machine (ATM) is a mechanized telecommunications device that provides a financial institution's clientele a secure method of performing financial dealings in a public space with no a human clerk or bank teller. ATM can be interior (i. e., located in the branch premises) or exterior (located anywhere outside the branch premises). Banks need not get permission of the RBI for installation of ATMs at branches and additional room counters for which they clutch licences issued by the Reserve Bank.

Debit Card and Credit Card

A debit card is an electronic card issued by a bank which provide bank clients access to their account to withdraw/get cash or pay for goods and services. This removes the require for bank clients to go to the bank to take away cash from their account as they can now go to an ATM or pay electronically at merchant locations. This type of card, as a form of payment, also removes the require for cheques as the debit card right away transfers money from the client's account to the business account. A credit card is issued by a financial company giving the holder an alternative to use funds, more often than not at point of sale. Credit cards charge attention and are primarily used for short-term financing. Interest more often than not begins one month after a purchase is made and borrowing limits are pre-set according to the individual's credit rating. 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 by electronic means 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 corporates maintaining accounts with a bank branch. Even individuals not having a bank account can put cash at the NEFT-enabled branches with orders to transfer funds using NEFT. Though, such cash remittance will be controlled to a maximum of Rs.50, 000/- per transaction. Such walk-in-customers have to supply full particulars as well as complete address, telephone number, etc. NEFT, thus, also help in transfer of funds even with no having a bank account. This is a simple, protected, safe, fastest and cost effectual way to transfer funds particularly for Retail remittances.

RTGS

Real Time Gross Settlement system (RTGS), introduced in India since March 2004, is a system through which electronics instructions can be given by banks to transfer funds as of their one account to the account of another bank. The RTGS system is maintained and operated by the RBI and provides an income of well-organized and earlier funds transfer amongst banks facilitating their financial operations. As the name suggests, funds transfer among banks takes place on a 'Real Time' basis. consequently, money can reach the recipient instantaneously and the beneficiary's bank has the liability to credit the beneficiary's account within two hours.

VI. CHALLENGES AHEAD FOR BANKING SECTOR

Technological changes in Indian banking system presents sole opportunities and challenges for the banking industry. Just beginning or acquiring the right technology, deploying it optimally and then leveraging it to the utmost extent is necessary to attain and retain high service and competence standards while outstanding cost effectual and delivering sustainable return to shareholders. Managing technology is so, a key challenge for the Indian banking sector. Developing countries like India, has an enormous figure of people who don't have right of entry to banking services due to scattered and fragmented locations. But if we talk about those people who are availing banking services, their outlook are raising as the level of forces are growing due to the appearance of Information Technology and immense competition among the services & products provided by different banks. Since, foreign banks are playing in Indian market, the number of services obtainable has greater than before and banks have laid stress on meeting the customer outlook.

India is a country with enormous population and the demographic improvement of India is such that it is departing to become the mainly populated country extremely soon. Technological advancements can bring about seal addition among the urban and rural population. The primary challenge is to give reliable service to clients irrespective of the kind of client whether rural or urban. Preservation of customers is going to be a main challenge. Banks require stressing on retaining regulars and rising market share. Even with ATM machines and Internet Banking, many customers still favour the personal touch of their neighborhood branch bank. Technology has complete it likely to deliver services all through the branch bank network, providing immediate updates to checking accounts and fast movement of money for stock transfers. Though, this dependency on the network has brought IT department's extra tasks and challenges in managing, maintaining and optimizing the performance of retail banking networks. Illustratively, ensuring that every bank products and services are obtainable, at all times, and across the whole organization is necessary for today's retails banks to make revenues and stay aggressive. as well, there are network organization challenges, whereby observance these compound, circulated networks and applications functioning correctly in support of business objectives becomes necessary. Precise challenges comprise ensuring that account deal applications run powerfully among the branch offices and data centres. Banks in India will at the present have to work in the direction of an idea to have an improved retail delivery system. Such a system would comprise distorted branches, enhanced telephone services, and leading-edge internet banking functions that give a time after time positive multi-channel experience for the customer. Some of the challenges that the banks are in front of today are:

- Opposition from private banks
- Opposition from MNCs

 Managing diversified wants of customers

 Deteriorating customer loyalty

 coping with regulatory reforms

 Restructuring and reorganizing banks' setup in the direction of thinner and leaner administrative offices;

 Maintaining high-class assets.

 Management of impaired assets.

 Keeping rapidity with technology up-Gradations

 Problem of Non-Performing Assets (NPA)

The banking industry is varying at an exceptional speed. At the same time as at the one end, we have millions of savers and investors who still do not employ a bank, another section continues to bank with a physical branch and at the previous end of the range, the customers are attractive well-known with ATMs, e-banking, and cashless economy. This shows the huge possible for market. Banks are location up option delivery channels to hold operating costs like off-site ATMs, internet banking, tale banking, outsourcing, central deal processing, etc. No uncertainty, the reimbursement of technology has brought a change of opinion in the viewpoint of modern banking. Now the object of banking is not now to make happy but to connect with clients and enrich their knowledge and for the winning attainment of this objective, the only sustainable aggressive benefit is to give the client a best blend of technology and usual service. With technology occupying an essential position in release of banking services, the prospects of the consumer have also been rising.

generally, these prospect are swift check with minimal response time, well-organized service delivery, tailor-made and value-added products to set of clothes exact wants, hassle-free events and minimum deal costs, and pleasant and modified service.

VII. CONCLUSION

India is one of the high economies in the world, anywhere the banking sector has wonderful possible to produce. The figure of ATMs has doubled over the history few years, with additional than 100,000 in the country at present (70 per cent in urban areas). They are approximate to additional double by 2016, with over 50 per cent usual to be place up in little towns. As well, the capacity for mobile and internet banking is large. At the start of 2015, only 2 per cent of banking spending went from side to side the electronic system in the country. Nowadays, mobility and client convenience are viewed as the main factors of growth and banks are incessantly exploring novel technology, with conditions such as mobile solutions and cloud computing being second-hand with better reliability. Though, Indian banking industry faced the many challenges such as rising rivalry, force on spreads, and universal changes to bring into line with international standards have necessitated a reconsideration of strategies and processes in order to stay competitive in this dynamic environment. Banks have to take on a holistic move towards to fulfil the ever varying wants of customers and to grab a improved market share. Growth of sophisticated products with near to the ground cost skill is the input. This calls for in- depth examination of customer wants the market and participant trends. This examination plays an extremely significant function in devising original strategies, products and services. Due mind will have to be complete while acceptance technology and transforming usual touch points to electronic ones, so that human feel with customers is also not missing. In the finish, it can be correctly supposed that productivity and competence will be the watch words in the banking industry in the years in front. Strategizing organizational efficiency and functioning competence will govern the survival and expansion of profits; as well bringing changes in the state of mind of the workers, which is very important with the varying times.

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