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Changed Scenario of Banking Sector in India

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ABSTRACT

The banking sector in India underwent a sea change. The banks approach towards the customers has drastically changed. Since Independence the banks have undergone a huge change in India. This change was great during 1990s and 2000s, when a number of innovations changed the way banking was perceived. The growth in the Indian Banking Industry has been more quantitative rather than qualitative and it is expected to remain the same in the coming years. Indian banking is the helping hand of the nation and its people. The important sectors of the Indian economy have greatly developed due to banking. The sector has translated the hopes and aspirations of millions of people into reality. The various innovations in banking sector are ECS, RTGS, EFT, NEFT, ATM, Retail banking, Debit and Credit cards, free advisory services, online banking, mobile banking and many more value added products and services.

Keywords: Innovative Banking, Technological Changes, Indian Banking sector

Introduction:

The banking sector in India placed greater emphasis on innovation and technology, from 1990. In the 1990s, the banking sector in India placed greater stress on technology and innovation. It began to use technological advancements to provide better quality of services at accelerated pace. Mobile banking and e-banking have made it easier to transact for the customers who stay in geographically remote areas. Information Technology has made it convenient for the customers to do their banking from geographically remote areas which remained untapped earlier. The focus of the banks turned on the rural markets and they introduced a variety of services to take care of the special needs of their rural customers. The traditional scope and new concepts like personal banking, bank assurance, etc were introduced. The banking sector was moving rapidly towards electronic transactions which were expected to change the way banking was perceived in future.

Research methodology

The study is carried out to make an evaluation of the current scenario of the Indian Banking sector. The entire paper is based on the secondary sources of data viz. the various websites, academic journals, etc.

Evolution of Banking in India: 3 Phases of Indian Banking System

They are as mentioned below:

Phase I: Early phase from 1786 to 1969 of Indian banks

The first bank was General Bank of India which was set up in the year 1786, which was followed by Bengal Bank. Later on East India Company established Bank of Bengal (1806), Bank of Bombay (1840) and Bank of Madras (1843) as independent units and called them Presidency Banks. In the year 1921 the three banks were amalgamated

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and Imperial Bank of India was established which started as private shareholders banks with mostly Europeans shareholders.

For the first time in 1865, Allahabad Bank was established exclusively by Indians. Then Punjab National Bank Ltd. was set up in 1894 with headquarters at Lahore. Between 1885 and 1913, Bank of India Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up. The Reserve Bank of India was established in the year 1935.

The growth was very slow with periodic failures, during the first phase i.e.in the between 1913-1948.There were almost 1100 banks of small size. To make the functioning and activities of commercial banks more efficient, the Banking Companies Act, 1949 was made by the Government of India which was later changed to Banking Regulation Act, 1949 as per amending Act of 1965 (Act No. 23 of 1965). The overall supervision of banking in India was vested with the Reserve Bank of India as the Central Banking Authority. The public had very less confidence in the banks, rather for saving bank facility the Postal department was considered safer.

Phase II: Nationalization of Indian Banks-up to 1991, prior to Indian banking sector Reforms.

After Independence the Indian Government took major steps to reform the Indian Banking Sector. The Imperial Bank of India was nationalized in 1955 with wide spread banking facilities in rural and semi urban areas. The State Bank of India was formed as a chief mediator of Reserve Bank of India, as well as to lever banking transactions of the Union and State Governments all over the country. On 19th July, 1959 the seven subsidiary banks of State Bank of India were nationalized. The 14 major commercial banks in the country were nationalized due to the efforts of the then Prime Minister of India, Mrs. Indira Gandhi. The Indian Banking sector reforms carried out nationalization in the second phase with 6 more banks. This step brought 80% of the banking segment in India under Government ownership. Under the Government ownership, the public's faith increased and their confidence about the sustainability of these institutions increased tremendously.

Phase III: Indian Banking System with the advent of Indian Financial and Banking Sector Reforms after 1991.

In 1991, under the chairmanship of M Narasimham, a committee was setup by his name which worked for the liberalization of banking practices. Many more products and facilities in the banking sector had been introduced. Pains are taken to give adequate services to customers. Mobile banking and internet banking facilities have been started. The entire banking has become very expedient and speedy. Time has become a very important factor in banking industry.The Financial system of India is very flexible**.** It is protected from any crisis triggered by any external shock. This is all due to a flexible exchange rate regime, the foreign reserves are high, the capital account is not yet fully convertible, and banks and their customers have limited foreign exchange exposure.

OBJECTIVES OF THE STUDY

1. To study the various financial innovation in banking sector.
2. To study the changing banking scenario.

Innovations in Indian Banking Sector

The Innovations in the banking sector have been categorized into three categories viz.

i. **Types of innovative Banking**
   a. E-Banking
   b. Core Banking
   c. Corporate Banking
   d. Investment Banking
   e. Rural Banking
   f. NRI Banking
   g. Retail Banking

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ii. Types of product & services

a. Total branch automation
b. Any branch banking
c. Demat Service
d. Microfinance
e. Plastic money
f. Mobile Banking

iii. Electronic systems

a. ATM
b. RTGS
c. FINACLE

TYPES OF INNOVATIVE BANKING

a. E-Banking

Compared with traditional channels of offering banking services through physical branches, e-banking uses the Internet to deliver traditional banking services to their customers, such as opening accounts, transferring funds, and electronic bill payment. E-banking can be offered in two main ways. First, an existing bank with physical offices can also establish an online site and offer e-banking services to its customers in addition to the regular channel. Generally, e-banking is provided without extra cost to customers. Customers are attracted by the convenience of e-banking through the Internet, and in turn, banks can operate more efficiently when customers perform transactions by themselves rather than going to a branch and dealing with a branch representative. E-banking services are delivered to customers through the Internet and the web using **Hypertext Markup Language (HTML)** .

b. Core Banking

Earlier core banking rotated around basic account management, information regarding customers and account details only.

Today's core banking deals in totality and has many features viz. 360 degree customer view, new products origination, banking channels, Banking analytics, security control, etc

c. Corporate Banking

That aspect of banking which deals with corporate customers is known as Corporate banking. It is the main source of profit for many of the banks, however it is also the source of regular write-downs for loans that have soured. The corporate banking segment deals with a range of clientele viz. small to mid-sized local businesses to large conglomerates with billions in sales and offices across the country, offering products and services like Loans and other credit products, Treasury and cash management services, Equipment lending, Trade finance,etc.

d. Investment Banking

This division of banking is related to the creation of capital for other companies, governments and other entities. They underwrite new debt and equity securities for all types of corporations, aid in the sale of securities, and help to facilitate mergers and acquisitions, reorganizations and broker trades for both institutions and private investors. Investment banks also provide guidance to issuers regarding the issue and placement of stock. The Investment banks help corporations, governments and other groups to plan and manage large projects, saving their client time and money by identifying risks associated with the project.

e. Rural banking

Rural Bank can be defined as rural financial institution/ cooperative/ community bank or deposit
taking MFI that provides customized financial services to rural communities. It traditionally serves the financial needs of the people living in rural areas. Unlike banks located in urban areas, rural banks may have relatively small and specialized customer bases spread over a far greater geographical area. Rural Banks were established to provide sufficient banking and credit facility for agriculture and other rural sectors. These were set up on the recommendations of The Narasimham Working Group during the tenure of Indira Gandhi's government with a view to include rural areas into economic mainstream since that time about 70% of the Indian Population was of Rural Orientation.

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f. NRI Banking

This facility is designed for diverse banking requirements of the vast NRI population spread across the globe. NRE (Non Resident External Account) NRO (Non Resident Ordinary Account) FCNR (Foreign Currency Non Resident Account).Thus, to meet the specific needs of non-resident Indians related to their remittances, savings, earnings, investments and repatriations ′ The Government of India introduced in 1970 Non-Resident (External) Account Rules which are governed by the Exchange Control Regulations ′ The Foreign Exchange Management Act (FEMA), 1999 determines the laws regulating foreign exchange and enlists the various deposit schemes available to Non- Resident Indians.

g. Retail banking

It is also known as Consumer Banking. These banks offer services to individual customers, rather than to companies, corporations or other banks. The services offered are savings and transactional accounts, mortgages, personal loans, debit cards, and credit cards. It is also known as 'One stop shop'

II. TYPES OF PRODUCT & SERVICES

a. Total branch automation

Branch Automation speeds up the transactions with fewer errors**.** It is a form of banking automation that connects the customer service desk in a bank office with the bank's customer records in the back office. Banking automation refers to the system of operating the banking process by highly automatic means so that human intervention is reduced to a minimum. It is also referred to as platform automation.

b. Any Branch Banking

Any Branch Banking (ABB) is a facility for the customers to operate their account from any of the networked branches. The branch where the customer maintains his account is the base branch and the branch from where he carries out his transactions is referred as the remote branch. The facilities available are cash withdrawal & cash deposits, account statement, facility to issue multi- city cheques fund transfer, balance enquiry, purchase of demand drafts, pay order, repayment of loan account, etc.

c. Demat Service

In India's banking terminology, the term DEMAT Account refers to a deposit made at an Indian financial institution that can be used for investing in shares of stocks and other financial assets. Securities are held electronically in a DEMAT Account, thereby eliminating the need for physical paper certificates. A **demat** account, the abbreviation for dematerialized account, is a type of banking account which dematerializes paper-based physical stock shares. The dematerialized account is used to avoid holding physical shares: the shares are bought and sold through a stock broker. It offers secure and convenient way to keep track of the securities and investment over a period of time without the hassle of handling physical documents. It provides facility of online trading.

d. Microfinance

It refers to a movement that envisions a world in which low income households have permanent access to a range of high quality financial service to finance their income producing activities, build assets, stabilize consumption and protect against risks. Microcredit, or microfinance, is banking the unbankables, bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral. In general, banks are for people with money, not for people without.

e. Plastic money

Plastic money is the alternative to the cash or standard money. It is very convenient to carry. Generic term for all types of bank cards, debit cards, credit cards, smart cards. Plastic money or polymer money, made out of plastic, is a new and easier way of paying for goods an services. It was introduced in 1950s and is now an essential form of ready money which reduces the risk of handling a huge amount of cash.

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f. Mobile Banking

Mobile banking is a service provided by a bank that allows its customers to conduct a range of financial transactions remotely using a mobile device such as a mobile phone or tablet, and using software, usually called an app, provided by the bank. It is usually available on a 24-hour basis. The types of financial transactions which a customer may transact through mobile banking include obtaining account balances and list of latest transactions, electronic bill payments, and funds transfers between a customer's or another's accounts. Some also enable copies of statements to be downloaded. From the bank's point of view, mobile banking reduces the cost of handling transactions by reducing the need for customers to visit a bank branch for non-cash withdrawal and deposit transactions. The account that can travel with you. This facility enables one to bank from anywhere, at any time, & in any condition or anyhow.

III. ELECTRONIC SYSTEMS

a. ATM

It stands for ‘Automatic teller machine’. In simple words, it is ‘ simple to use self service solution. An automated teller machine (ATM) is an electronic banking outlet, which allows customers to complete basic transactions without the aid of a branch representative or teller. There are two primary types of automated teller machines, or ATMs. The basic units allow the customer to only withdraw cash and receive a report of the account's balance. The more complex machines will accept deposits, facilitate credit card payments and report account information. To access the advanced features of the complex units, you will usually need to be a member of the bank that operates the machine.

b. RTGS

Real-time gross settlement systems (RTGS) are specialist funds transfer systems where transfer of money or securities[1] takes place from one bank to another on a "real time" and on "gross" basis. This is the fastest possible money transfer system through the banking channel. The time taken for effecting funds transfer from one account to another is normally 2 hours. Settlement in "real time" means payment transaction is not subjected to any waiting period. The transactions are settled as soon as they are processed. "Gross settlement" means the transaction is settled on one to one basis without bundling or netting with any other transaction. Once processed, payments are final and irrevocable.RTGS systems are typically used for high-value transactions that require immediate clearing. In some countries the RTGS systems may be the only way to get same day cleared funds and so may be used when payments need to be settled urgently.

c. FINACLE

This system provides the holistic and integrated transformation approach, complete with solutions and services.Finacle solutions addresses the requirements of retail, corporate and universal banking worldwide like: Core banking solution, E-banking solution, Mobile banking solution Wealth management, CRM requirements, etc

CONCLUSION

Over the years the Banking sector in India has become stronger and the number of customers has immensely grown.. The banking sector 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 focus has now been shifted from product to customer.

The Private Sector Banks in India are witnessing immense progress. They are the leaders in Internet banking, mobile banking, phone banking, ATMs.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".

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