



EMERGING TRENDS IN BANKING SECTOR - ITS CHALLENGES AND OPPORTUNITIES

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Abstract

In financial sector the banking industry is the largest player, has also been undergoing a major change. Today the banking industry is stronger and capable of withstanding the pressures of competition. Today, we are having 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. In the banking field, there has been an unprecedented growth and diversification of banking industry has been so stupendous that it has no parallel in the annals of banking anywhere in the world. The banking industry has experienced a series of significant transformations in the last few decades. Among the most important of them is the change in the type of organizations that dominate the landscape. Since the eighties, banks have increased the scope and scale of their activities and several banks have become very large institutions with a presence in multiple regions of the country.' The paper examines the new trends in commercial banking. The present era the cashless transactions, E-cheques, mobile wallets. The paper attempts to present the emerging trends and its challenges that recently emerged in the banking sector with special emphasis on digitization. It will be useful to the academicians, banking and insurance personnel, students and researchers. Common readers also know the latest innovations in banking sector.



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Introduction:

Banking sector is the section of economy concerned to holding of financial assets for others, investing financial assets as authority to create more wealth and the regulation of those activities by government agencies. In India banking sector is always been one of the most preferred entrance to employment. In presently banking sector is president sector in Indian economy. Banking sector has the potential to account for over 7.7 of Gross Domestic Product (GDP) over 7,500 billion in market cap, and to provide over 1.5 million jobs. Now a day's banks have diversified their activities and are giving into new products and services that include opportunities in credit cards, consumer finance, wealth management, life insurance, general insurance, investment banking, mutual funds, pensions, fund regulations,

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stock broking services, custodian services, private equity, etc. In India banking sector consists of 26 public sector banks, 20 private banks & 43 foreign banks along with 61 regional rural banks (RRB's) and more than 90,000 credit cooperatives. In currently Indian banking industry worth is rs.81 trillion. Nowday's banks are working using of technology like internet, & mobile devices to carry out truncations and to communicate with customers directly.⁰¹

Review of literature:

Narasimham Committee (1991): The banking industry has introduced various new customer services and products using IT. The banking industry has gone through many changes as a result of the introduction of IT. In fact, the structure of the industry is continuously changing because of rapid development of IT.⁰² **Sivakumaran (2005),** believes that adoption of technology has led to the following benefits: greater productivity, profitability, and efficiency; faster service and customer satisfaction; convenience and flexibility; 24x7 operations; and space and cost savings.⁰³

Shirley J. Ho and Sushanta K. Mallick (2008) believed that IT can improve bank's performance in two ways: IT can reduce operational cost (cost effect), and facilitate transactions among customers within the same network (network effect). This paper attempts to explain the inconsistency by stressing the heterogeneity in banking services; in a differentiated model with network effects.⁰⁴ **Charumathi and surulivel (2009),** evaluate the websites of public sector banks by using WAI and found that the website quality is not up to the mark.⁰⁵ **M.Sujatha1, N.V Haritha2, P. Sai Sreeja (2017)** explained that, an up gradation of technology banks are playing vital role in economic development. Banking sector in India is resulting with increased growth in customers. The changes made by banks are mostly focused on financial inclusion for expansion into rural areas and bringing stability by boosting credit growth making banking services near to the customer directly and reducing customer valuable time.⁰⁶

Objectives of the Study

- To examine recent trends and developments in banking sector
- To present the technological developments in Indian banking sector
- To study the emerging trends in banking technology.

Research methodology:

The present research study uses the most recent available published secondary data. To achieve the above stated objectives, the secondary data was used. The secondary data that are mainly used are published in annual reports of various banks and survey reports of leading business magazines. For the said research study the secondary data is also collected from the various National and International Research Journals which are related to Commerce, Management, Marketing and Finance. The Secondary data is also collected from various websites.

Major Landmarks Banking Technology and Transformation in India:

- The introduction of MICR based cheque processing – a first for the region, during the years 1986-88;
- Computerization of branches of banks – an activity which commenced from the late eighties with the introduction of ledger posting machines (LPMs), advanced ledger posting machines (ALPMs), followed by stand alone computer systems which metamorphosis into network based systems and the latest development pertaining to the installation of Core Banking solutions;
- Facilitating computerization of Government business – from the late nineties which has now resulted in all branches handling Government business perform their functions using technology;
- The setting up of the Institute for Development and Research in Banking Technology (IDRBT), Hyderabad in the mid nineties, as a research and technology centre for the Banking sector;
- The commissioning in 1999, of the Indian Financial Network as a Closed User Group based network for the exclusive use of the Banking sector with state-of-the-art safety and security. The network supports applications having features such as Public Key Infrastructure (PKI) which international networks such as S.W.I.F.T. are now planning to implement ; Commencement of Certification Authority (CA) functions of the IDRBT for ensuring that electronic banking transactions get the requisite legal protection under the Information Technology Act, 2000;
- Ensuring Information Systems Audit (IS Audit) in the banks for which detailed guidelines relating to IS Audit were formulated and circulated;

- Enabling IT based delivery channels which enhance customer service at banks, in areas such as cash delivery through shared Automated Teller Machines (ATMs), card based transaction settlements etc.;
- Providing Guidelines for Internet Banking, which facilitated the banks to ensure that common minimum requirements relating to Internet Banking offerings were provided for;
- Providing detailed specifications to banks on the configuration of systems relating to critical inter-bank payment system applications such as Real Time Gross Settlement (RTGS) System, Negotiated Dealing System (NDS), Centralized Funds Management System (CFMS) etc.;
- Implementation of the National Financial Switch (NFS) to ensure interconnectivity of shared ATMs and to provide for funds settlement across various banks.
- Establishment of e-payment gateways for the benefit of customers (such as the gateways for funds transfers and other account related transactions) and for facilitating e-commerce.
- Sharing of information through the secured internet website for the Centralized Data Based Management System-Internet (CDBMSI) project.
- Providing a platform for transmission of electronic messages across banks using common standards, for facilitating 'Straight through Processing' (STP) in the form of the Structured Financial Messaging System (SFMS), which will be similar to the SWIFT messaging pattern;
- Setting up connectivity of all clearing houses of the country so as to enable the introduction of the National Settlement System (NSS) introducing a secured web site for internet based data transfer to Central and State Government. Government Departments may populate the data from the secured web site to their own systems based on their requirements.

Recent Trends in Banking:

1) 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.

2) 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.

3) 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.

4) 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.

5) 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.

6) 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.

7) 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.

8) 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.

9) A focus on mobile banking: As smart phones become even more widely used, it's no surprise that mobile-banking apps are increasingly popular. "For many people, mobile banking is the norm, especially if you skew younger, which is the future of banking,"

10) Better payment security: High-profile data breaches in the past year, including at JP Morgan Chase and Home Depot, have made cyber security an even hotter topic in banking, especially when it comes to payments. EMV chips, which protect card data by encrypting it, will become standard in U.S. cards in October. Named for its developers (Euro Pay, MasterCard and Visa), EMV technology offers greater security than the vulnerable magnetic stripe and is already widely used outside the United States.

11) More social interaction: In 2015, banks may soon be more about sharing — and less about telemarketing — thanks to millennial. Among these Generation Y consumers who have bank accounts, 10% say they've used social networks to interact with their bank, according to Cap Gemini's 2014 World Retail Banking Report. In the previous year's study, this metric wasn't even included, website All Analytics reports. This finding may help drive interest in more social banking products.

Challenges faced by the banking sector:

□ **Customer satisfaction:** Today, in banking sector customers are more value oriented in their services because they have alternative choices in it. So that each and every bank have to take care about fulfilling customers satisfaction.

□ **To provide several personnel services:** Today, it is demanded that banks are to provide several services for which they have to expand their service, social banking with financial possibilities, computerization and innovative mechanization, better customer services, internal supervision and control, adequate profitability, strong organization culture etc. Therefore banks must be able to provide complete personal service to the customer who comes with expectations.

□ **Competition:** The nationalized banks and commercial banks have the competition from foreign and new private sector banks. Competition in banking sector brings various challenges before the banks such as product positioning, innovative ideas and channels and new market trends. Banks are restricting their administrative folio by converting manpower

into machine power. ie; banks are decreasing manual powers and getting maximum work done through machine power. Skilled and specialized manpower is to be utilized and result oriented targeted staff will be appointed.

□ **Global Banking:** It is practically and fundamentally impossible for any nation to exclude itself from world economy. Therefore, for sustainable development, one has to adopt integration process in the form of liberalization and globalization as India spread the red carpet for foreign firms in 1991. The foreign banks operating in India, becomes a major challenge for nationalized and private sector banks. These banks are large in size, technically advanced and having presence in global market, which gives more and better options and services to Indian traders.

□ **Growth of Banking:** Zhao, Casu and Ferrari (2008) used a balanced panel data set covering the period of 1992-2004 and employing a Data Envelopment Analysis (DEA) based Total Factor Productivity (TFP) index. The empirical study indicated that after an initial adjustment phase, the Indian Banking Industry experienced sustained productivity growth, which was driven mainly by technological progress. They are successful in making their presence in rural India. It strengthens their network across geographical boundary improves customer base and market share.

□ **Managing Technology:** Developing or acquiring the right technology, deploying it optimally and then leveraging it to the maximum extent is essential to achieve and maintain high service and efficiency standards while remaining cost effective and delivering sustainable return to shareholders. Early adopters of technology acquire significant competitive advantages. Managing technology is therefore, a key challenge for the Indian Banking Sector.

□ **Market Discipline and Transparency:** Banks are expected to be more responsive and accountable to the investors. Banks have to disclose in their Balance sheets a plethora of information on the maturity profiles of assets and liabilities, movements in NPAs, capital, shareholdings of the government, value of investment in India and abroad, the total investment made in the equity share, bonds, debentures, aggregate advances against shares and so on.

Other Challenges

- Development of skill of bank personnel
- Customer awareness and satisfaction

- Changing needs of customers
- Lack of common technology⁰⁷

Opportunities:

1) Internet Banking: - It is clear that online finance will pick up and there will be increasing convergence in terms of product offerings banking services, share trading, insurance, loans, based on the data warehousing and data mining technologies. Anytime any where banking will become common and will have to upscale, such up scaling could include banks launching separate internet banking services apart from traditional banking services.

2) Retail Lending: - Recently banks have adopted customer segmentation which has helped in customizing their product folios well. Thus retail lending has become a focus area particularly in respect of financing of consumer durables, housing, automobiles etc., Retail lending has also helped in risks dispersal and in enhancing the earnings of banks with better recovery rates.

3) Rural area customers: - Contributing to 70% of the total population in India is a largely untapped market for banking sector. In all urban areas banking services has entered but only few big villages have the banks entered. So the banks must reach in remaining all villages because majority of Indian still live in rural areas.

4) Offering various Channels: - Banks can offer so many channels to access their banking and other services such as ATM, Local branches, Telephone/mobile banking, video banking etc to increase the banking business.

5) Good Customer Services: - Good customer services are the best brand ambassador for any bank for growing its business. Every engagement with customer is an opportunity to develop a customer faith in the bank. While increasing competition customer services has become the backbone for judging the performance of banks.

6) Indian Customers: - The biggest opportunity for the Indian banking sector today is the Indian customer's. The Indian customers now seek to fulfill his lifestyle aspirations at a younger age with an optimal combination of equity and debt to finance consumption and asset creation. He represents across societies, towns and villages i.e. in rural areas. Consumer goods companies are already tapping this potential it is for the banks to make the most of the opportunity to deliver solutions to this market.

7) Other Opportunities: - There are many other opportunities in future in the field of Indian banking sector e.g. to enter new business and new markets, to develop new ways of working, to improve efficiency, to deliver high level of customer services.⁰⁷

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 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". The shift has also increased the degree of accessibility of a common man.

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