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Trends and Progress of Banking in Indian Scenario

Dashrath B. Bhoite*

ABSTRACT

Today most of the banking happens while you are sipping coffee or taking an important call. ATMs are at your doorstep. Banking services are accessible 24x7. There are more plastic cards in your wallet than currency notes. A huge part of this change is due to advent of IT. Banks today operate in a highly globalized, liberalized, privatized and a competitive environment. In order to survive in this environment banks have to use IT. Indian banking industry has witnessed a tremendous developments due to sweeping changes that are taking place in the information technology. Electronic banking has emerged from such an innovative development. The objective of the present paper is to study and analyze the progress made by Indian banking industry in adoption of technology. The study is secondary based and analytical in nature. The progress in e-banking in Indian banking industry is measured through various parameters such as Computerization of branches, Automated Teller Machines, Transactions through Retail Electronic Payment Methods etc. Statistical and mathematical tools such as simple growth rate, percentages and averages etc are used. The paper also highlights the challenges faced by Indian banks in adoption of technology and recommendations are made to tackle these challenges. The paper concludes that in years to come e-banking will not only be acceptable mode of banking but preferred mode of banking.

Keywords: e-banking, Information Technology, Automated Teller Machines.

Introduction

Information Technology has become a necessary tool in today's organizations. Nowadays Banks operate in a highly globalized, liberalized, privatized and a competitive environment. In order to survive in this environment banks have to use IT. IT has introduced new business paradigm. It is increasingly playing a significant role in improving the services in

the banking industry.

Indian banking industry has witnessed a tremendous developments due to sweeping changes that are taking place in the information technology. Electronic banking has emerged from such an innovative development. Modern technology is seen as a panacea for most of the ills that the banking sector faces today.

*Assistant Professor, Sinhgad Institute of Business Management, Kamlapur At Post. Kamlapur, Tal. Sangola, Dist. Solapur.

Even at present, India is a relative unbanked country as the credit-to- GDP ratio is one of the lowest in the developing economies. So banks are facing the dual challenge of increasing penetration and high growth trajectory. The banking industry can kill two birds with one stone that is with help of technology. Tremendous progress took place in the field of technology which has reduced the world to a global village and it has brought remarkable changes in the banking industry. Branch banking in the brick and mortar mode has been transformed into click and order channel mode.

E-Banking:

E-banking is the term that signifies and encompasses the entire sphere of technology initiatives that have taken place in the banking industry. E-banking is a generic term making use of electronic channels through telephone, mobile phones, internet etc. for delivery of banking services and products. The concept and scope of e-banking is still in the transitional stage. E- Banking has broken the barriers of branch banking.

Evolution of e-banking:

E-banking came into being in UK and USA in 1920s. It became prominently popular during 1960s through electronic funds transfers and credit cards. The concept of web-based banking came into existence in Europe and USA in the

beginning of 1980s. It has been estimated that around 40 percent of banking transaction would be done through Net.

E-Banking in India:

In India e-banking is of fairly recent origin. The traditional model for banking has been through branch banking. Only in the early 1990s there has been start of non-branch banking services. The good old manual systems on which Indian Banking depended upon for centuries seem to have no place today. The credit of launching internet banking in India goes to ICICI Bank. Citibank and HDFC Bank followed with internet banking services in 1999. Several initiatives have been taken by the Government of India as well as the Reserve Bank to facilitate the development of e-banking in India. The Government of India enacted the IT Act, 2000 with effect from 17th October 2000, which provides for legal recognition to electronic transactions and also to other means of electronic commerce. The Reserve Bank is monitoring and reviewing the legal and other requirements of e-banking on a continuous basis to ensure that e-banking would develop on sound lines and e-banking related challenges would not pose a threat to financial stability.

A high level Committee under chairmanship of Dr. K.C. Chakrabarty and members from IIT,

IIM, IDRBT, Banks and the Reserve Bank prepared the „IT Vision Document- 2011-17”, for the Reserve Bank and banks which provides an indicative road map for enhanced usage of IT in the banking sector. To cope with the pressure of growing competition, Indian commercial banks have adopted several initiatives and e-banking is one of them. The competition has been especially tough for the public sector banks, as the newly established private sector and foreign banks are leaders in the adoption of e-banking. Indian banks offer to their customers following e-banking products and services:

- Automated Teller Machines (ATMs)
- Internet Banking
- Mobile Banking
- Phone Banking
- Tele banking
- Electronic Clearing Services
- Electronic Clearing Cards
- Smart Cards
- Door Step Banking
- Electronic Fund Transfer

The three broad facilities that e-banking offers are:

- Convenience- Complete your banking at your convenience in the comfort of your home.
- No more Qs- There are no queues at an online bank.
- 24x7 service- Bank online services are provided 24 hours

a day, 7 days a week and 52 weeks a year.

Objectives

1. To identify various e-banking services/products adopted by Indian banks.
2. To study and analyze the progress made by Indian banking industry in adoption of technology.
3. To study the challenges faced by Indian banks in adoption of technology and make recommendations to tackle these challenges.

Research Methodology & Database

The study is secondary based in analytical in nature. Statistical and mathematical tools such as simple growth rate, percentages and averages are used. The sources of data are Report on Trends and Progress of Banking in India published by Reserve Bank of India, Mumbai. The parameters of the study are Computerization of branches, Automated Teller Machines and Transactions through Retail Electronic Payment Methods such as Electronic Clearing services (ECS) - debit and credit, National Electronic Fund Transfer and Electronic Clearing Cards that is debit card and credit card. To analyze progress made by Indian banking industry in adoption of technology, averages, percentages and simple growth

rate is calculated. (In this study, simple growth rate is indicated by GR. $GR = \frac{Y_t - Y_0}{Y_0} \times 100$ where Y_t indicates value of given parameter in current year and Y_0 indicates value of given parameter in base year).

Analysis and Interpretation

Computerization in Public Sector Banks:

- Computerization as well as the adoption of core banking solutions was one of the major steps in improving the efficiency of banking services. It is important to note that presently almost 98 percent of the branches of public sector banks are fully

computerized and within which almost 90 percent of branches are on core banking platform. Table 4.1 indicates computerization in public sector banks over four year's period from 2007-2010. On average during this period 93.02 percent of branches are fully computerized, 70.2 percent branches are under core banking solutions and 6.73 percent of branches are partially computerized. Growth rate in case of fully computerized branches and branches under core banking solutions has increased whereas in case of partially computerized branches it has become declined.

Table 4.1: Computerization in Public Sector Banks (Percent of total bank branches).

(As at March)

Year/ Category	Fully Computerized Branches	GR	Branches under Core Banking Solutions	GR	Branches already fully Computerized	GR	Partially Computerized Branches	GR
2007	85.6	-	44.4	-	41.2	-	13.4	-
2008	93.7	9.46	67.0	50.9	26.6	35.4	6.3	52.9
2009	95.0	10.98	79.4	78.8	15.6	62.1	5.0	62.6
2010	97.8	14.25	90.0	102.7	7.8	81.1	2.2	83.5
Average	93.02		70.2		91.2		6.73	

Source: Report on Trends and Progress of Banking in India, RBI, Mumbai, Various Issues.

Automated Teller Machines (ATMs):-

ATM is a modern device introduced by the banks to enable the customers to have access to money day in day out without visiting the bank branches in person. The system is known as “Any Time Money”

because it enables the customers to withdraw money from the bank from any of its ATMs round the clock. ATM has become the most popular and convenient delivery channel throughout entire country.

Table 4.2 indicates the progress made by ATMs of Scheduled Commercial Banks for the period 2007-2011. In average terms

Onsite ATMs are more as compared to Offsite ATMs though the number of both has increased in the period of 5 years. In percentage terms also Onsite ATMs are more than Offsite ATMs. The percentage of Onsite ATMs has increased but percentage of Offsite ATMs has marginally declined from 45.7 percent in 2010 to 45.3 percent in 2011. In 2011 number of total ATMs is 74,505 which are 100.5 percent of total branches. Growth rate has remarkably increased in 2011 in case of both Onsite and Offsite ATMs taking the year 2007 as base year.

Table 4.2: Automated Teller Machines (ATMs) of Scheduled Commercial Banks (As at end March)

Year/ Category	On site	GR	Offsite	GR	Total	GR	Off site as percentage of total ATMs	On site as percentage of total ATMs	ATMs as percentage of total branches
2007	14,796	-	12,292	-	27,088	-	45.4	54.6	47.5
2008	18,486	24.90	16,303	32.6	34,789	28.4	46.9	53.1	56.9
2009	24,645	66.6	19,006	54.6	43,651	61.1	43.5	56.5	67.0
2010	32,679	120.9	27,474	123.5	60,153	122.1	45.7	54.3	87.0
2011	40,729	175.2	33,776	174.8	74,505	175.0	45.3	54.6	100.5
Average	26,267		21,770		48037.2				

Source: Same as Table 1.

Table 4.3 indicates Bank Group-wise ATMs of Scheduled Commercial Banks. The highest number of ATMs both Onsite and Offsite is in case of Public sector banks and which is 66.42 percent of total ATMs in the country. In percent terms ATMs in case of Nationalized Banks is 33.33 percent, in case of SBI group is

33.09 percent which is more than that of Private sector banks (31.84). New private sector banks has major share of ATMs (26.21) as compared to Old private sector banks (5.54). Foreign banks have 1,367 ATMs in 2011 which is just 1.83 percent of total ATMs.

**Table 4.3: Bank Group-wise Automated Teller Machines of Scheduled Commercial Banks
(As at end March 2011)**

Bank Group/ Category	On site ATMs	Percent of total	Offsite ATMs	Percent of total	Total Number of ATMs	Percent of Total	On site ATMs as percent of total ATMs	Off site ATMs as percent of total ATMs
Public Sector Banks	29,795	73.15	19,692	58.30	49,487	66.42	60.2	39.8
Nationalised Banks	15,691	38.53	9,145	27.08	24,836	33.33	63.18	36.8
SBI Group	14,104	34.53	10,547	31.23	24,651	33.09	57.21	42.8
Private Sector Banks	10,648	26.14	13,003	38.49	23,651	31.84	45.02	55.0
Old Private Sector Banks	2,641	6.48	1,485	4.39	4,126	5.54	64.01	36.0
New Private Sector Banks	8,007	19.66	11,518	34.10	19,525	26.21	41.01	59.0
Foreign Banks	286	0.70	1,081	3.20	1,367	1.83	20.92	79.1
All Banks	40,729	100.00	33,776	100.00	74,505	100.00	54.67	45.3

Source: Same as Table 1.

Transactions through Retail Electronic Payment Systems: - The electronic payment systems such as Electronic Clearing Service (ECS) credit and debit and National Electronic Fund Transfer (NEFT) have improved the speed of financial transactions across the country. Electronic Clearing Service (ECS) is one of the new electronic banking services. ECS is a non- paper based movement of funds which is encouraged by the RBI on a wide scale. ECS consists of- Electronic Credit Clearing Service & Electronic Debit

Clearing Service. ECS brings down administration cost and ensures profitability and productivity to the banks. National Electronic Fund Transaction (NEFT) is a deferred net settlement system and is an improvement over other modes in terms of security and processing efficiency. This facility is currently available at over 46,300 bank branches throughout the country.

Table 4 shows the volume of electronic transactions of Scheduled Commercial Banks. In average terms volume of ECS

Debit (133.66) is greater than ECS Credit (90.2). Growth rate in case of ECS Credit has increased whereas in case of ECS Debit has increased in 2008-09 and declined in 2009-10 but again increased in 2010-11. Volume of NEFT has also increased and on average it has increased at the rate of 49.75 over the period of 5 years. Growth rate in case of NEFT has increased remarkably. Transactions through Retail Electronic Payment Systems- The electronic payment systems such as Electronic Clearing Service (ECS) credit and debit and National Electronic Fund Transfer (NEFT) have improved the speed of financial transactions across the

country. Electronic Clearing Service (ECS) is one of the new electronic banking services. ECS is a non-paper based movement of funds which is encouraged by the RBI on a wide scale. ECS consists of- Electronic Credit Clearing Service & Electronic Debit Clearing Service. ECS brings down administration cost and ensures profitability and productivity to the banks. National Electronic Fund Transaction (NEFT) is a deferred net settlement system and is an improvement over other modes in terms of security and processing efficiency. This facility is currently available at over 46,300 bank branches throughout the country.

**Table 4.4: Volume of Electronic Transactions of Scheduled Commercial Banks
(Volume in Millions)**

Year/ Transaction	ECS Credit		ECS Debit		NEFT	
	Volume	GR	Volume	GR	Volume	GR
2006-07	69.0	-	75.2	-	4.77	-
2007-08	78.3	13.48	127.1	69.01	13.3	178.8
2008-09	88.3	27.97	160.0	112.76	32.1	572.9
2009-10	98.1	42.17	149.3	98.53	66.3	1289.9
2010-11	117.3	70.0	156.7	108.38	132.3	2673.6
Average	90.2		133.66		49.75	

Source: Same as in Table 1

Table 4.5 shows value of electronic transactions of scheduled commercial banks. In average terms the value of ECS Credit is greater than ECS Debit though in value terms is reverse. Growth rate in case of ECS Credit in 2007-08 is higher and in later years it declined. Growth rate in

2010-11 has increased. NEFT has also increased in value terms. In 2010-11 it was Rs. 9, 39,149Cr. and in average terms it has increased at the rate of Rs. 3,63,677.4 Cr. Growth rate in case of NEFT has also increased remarkably as compared to base year 2007.

Table 4.5: Value of Electronic Transactions of Scheduled Commercial Banks

(Value in Rs Cr)

Year/ Transaction	ECS Credit		ECS Debit		NEFT	
	Value	GR	Value	GR	Value	GR
2006-07	83,273	-	25,441	-	77,446	-
2007-08	7,82,222	839.34	48,937	92.35	1,40,326	81.19
2008-09	97,487	17.06	66,976	70.91	2,51,959	225.34
2009-10	1,17,613	41.24	69,524	173.27	4,09,507	428.76
2010-11	1,81,686	118.18	73,646	189.48	9,39,149	1,112.65
Average	2,52,456.2		56,904.8		3,63,677.4	

Source: Same as in Table 1.

Electronic Clearing Cards: - Now-days Electronic Cash is being used in place of hard cash. Electronic Clearing Cards such as debit and credit cards. Debit card allows „anywhere any time accesses to the customers with their savings or current account. A customer possessing a Debit Card need not carry cash. Credit card also serves as convenient medium of exchange. It enables a customer to purchase goods or services within prescribed limits from

certain authorized retail and service establishments without making immediate cash payments. It is also called plastic money. The most important difference between a Credit card and a Debit card is that while credit card is a post- paid and debit card is pre-paid. Table 6 shows Bank Group-wise outstanding number of debit cards issued by scheduled commercial banks as at end March 2011.

In 2010-11, Public sector banks have highest number of debit cards issued (170.34) which is 74.76 percent of total debit cards issued by the industry. Nationalized Banks (35.23) and SBI group (39.53) have high percent of cards

issued as compared to Private sector banks (23.52). The share of new private sector banks is higher as compared to old private sector banks. Foreign banks have 1.72 percent of total debit cards issued.

Table 4.6: Bank Group- wise Outstanding Number of Debit Cards Issued by Scheduled Commercial Banks

(In millions) (As at end March, 2011)

Bank Group/ Year	2006-07		2007-08		2008-09		2009-10		2010-11	
	No.	% of total	No.	% of total	No.	% of total	No.	% of total	No.	% of total
Public Sector Banks	44.09	58.80	64.33	62.79	91.7	66.72	129.69	71.26	170.34	74.76
Nationalised Banks	19.24	25.66	28.29	27.62	40.71	29.62	58.82	32.32	80.27	35.23
SBI Group	24.85	33.14	36.04	35.18	50.99	37.10	70.87	38.94	90.07	39.53
Private Sector Banks	27.19	36.26	34.1	33.29	41.34	30.08	47.85	26.29	53.58	23.52
Old Private Sector Banks	3.94	5.25	5.34	5.21	7.09	5.16	9.81	5.39	12.44	5.46
New Private Sector Banks	23.25	31.01	28.76	28.07	34.25	24.92	38.04	20.90	41.14	18.06
Foreign Banks	3.70	4.93	4.02	3.92	4.39	3.19	4.43	2.43	3.92	1.72
All Banks	74.98	100.00	102.44	100.00	137.43	100.00	181.97	100.00	227.84	100.00

Table 4.7 shows Bank Group-wise outstanding number of credit cards issued by scheduled commercial banks as at end March 2011. The number of credit cards issued has declined from 4.14 million in 2006-07 to 3.08 in 2010-11. In 2011 the percent of total cards issued in case of

private sector banks is highest that is 51.66 percent in case of which major share is of new private sector banks that is 51.44 and that of old private sector banks is 0.22. The share of public sector banks is just 17.07 percent and that of foreign banks is 31.26 percent.

Table 4.7: Bank Group-wise Outstanding Number of Credit Cards issued by Scheduled Commercial Banks

(In millions) (As at end March 2011)

Bank Group/ Year	2006-07		2007-08		2008-09		2009-10		2010-11	
	No.	% of total	No.	% of total	No.	% of total	No.	% of total	No.	% of total
Public Sector Banks	4.14	17.91	3.93	14.26	3.44	13.93	3.26	17.79	3.08	17.07
Nationalised Banks	0.75	3.24	0.72	2.61	0.72	2.91	0.73	3.98	0.78	4.32
SBI Group	3.39	14.66	3.21	11.65	2.72	11.01	2.53	13.80	2.30	12.75
Private Sector Banks	10.68	46.19	13.29	48.24	12.18	49.31	9.5	51.83	9.32	51.66
Old Private Sector Banks	0.03	0.13	0.04	0.15	0.06	0.24	0.06	0.33	0.04	0.22
New Private Sector Banks	10.65	4.61	13.25	48.09	12.12	49.06	9.44	51.50	9.28	51.44
Foreign Banks	8.31		10.33	37.49	9.08	36.76	5.57	30.39	5.64	31.26
All Banks	23.12	100.00	27.55	100.00	24.70	100.00	18.33	100.00	18.04	100.00

Source: Same as in Table 1

Challenges in adoption of E-banking:

- E-banking is facing following challenges in Indian banking industry:
- The most serious threat faced by e-banking is that it is not safe and secure all the time. There may be loss of data due to technical defaults.
- E-banks are facing business challenges. For the transactions made through internet, the service charges are very low. Unless a large number of transactions are

routed over the Web the e-banks cannot think of profit.

- There is lack of preparedness both on part of banks and customers in the adoption of new technological changes.
- There is lack of proper infrastructure for the installation of e-delivery channels.

Recommendations

- E-banks should create awareness among people about e-banking products and services. Customers

should be made literate about the use of e-banking products and services.

- Special arrangements should be made by banks to ensure full security of customer funds. Technical defaults should be avoided by employing well trained and expert technicians in field of computers, so that loss of data can be avoided.
- Employees of banks should be given special technical training for the use of e-banking so that they can further encourage customers to use the same.
- Seminars and workshops should be organized on the healthy usage of e-banking especially for those who are ATM or computer illiterate.
- E-banking services should be customized on basis of age, gender, occupation etc. so that needs and requirements of people are met accordingly.
- Government should make huge investments for building the infrastructure.

Conclusion

In India, E-banking is in a nascent stage. No doubt Indian banks are making sincere efforts for the adoption of advanced

technology and installation of e-delivery channels but still masses are wary of the concept. Banks are making sincere efforts to popularize the e-banking services and products. Younger generation is beginning to see the convenience and benefits if e-banking. In years to come, e-banking will not only be acceptable mode of banking but will be preferred mode of banking.

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