



ISSN: 0976-3376

Available Online at <http://www.journalajst.com>

ASIAN JOURNAL OF
SCIENCE AND TECHNOLOGY

Asian Journal of Science and Technology
Vol. 08, Issue, 10, pp.6031-6034, October, 2017

RESEARCH ARTICLE

STUDY ON THE IMPACT OF INNOVATIONS IN BANKING SECTOR

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ARTICLE INFO

Article History:

Received 03rd July, 2017
Received in revised form
19th August, 2017
Accepted 21st September, 2017
Published online 09th October, 2017

Key words:

Banking, Banking innovation,
Internet banking

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ABSTRACT

Over the years, the banking sector in India has seen a number of changes. Most of the banks have begun to take an innovative approach towards banking with the objective of creating more value for customers, and consequently, the banks. Today, we are having a fairly well developed banking system with different classes of banks. Some of them have engaged in the areas of consumer credit, credit cards, merchant banking, internet and phone banking, leasing, mutual funds etc. A few banks have already set up subsidiaries for merchant banking, leasing and mutual funds and many more are in the process of doing so. The term "Innovation" means 'to make something new'. Banks no longer restricted themselves to traditional banking activities, but explored newer avenues to increase business and capture new market.

INTRODUCTION

The banking sector in India has seen a number of changes. And to meet the challenges of changing needs and perceptions of customers, new regulations over the years and great advances in technologies, most of the banks have begun to take an innovative approach towards banking with the objective of creating more value for customers in the banks. Today we have electronic payment system along with currency notes. India's financial sector is moving towards a scenario, where it can have new instruments along with liquidity and safety. Arrival of card, introduction of Electronic Clearing Service (ECS) in late 1990's, introduction of Electronic Funds Transfer, Real Time Gross Settlement (RTGS), introduction of NEFT (National Electronic Funds Transfer), mobile banking, online banking are the various innovations in banking. Banks are investing heavily in adoption of these innovations. This paper highlights the benefits of changing banking trends. The term "Innovation" means 'to make something new'. Banks no longer restricted themselves to traditional banking activities, but explored newer avenues to increase business and capture new market. The Indian banking sector functions under the regulatory and supervisory guidelines issued by the central bank, the Reserve Bank of India (RBI). Scheduled commercial banks in India can be broadly classified into the following three categories:

1. Public sector banks or PSBs (State Bank of India & its associates and nationalised banks);

2. Private sector banks (old and new); c), Foreign banks.

It is evident that PSBs have dominated the banking industry in India since independence. As of March 2000, of the 101 scheduled commercial banks, 27 were PSBs, 31 were private banks and 42 were foreign banks.

Banking history

Started in the year 1786 with "The General Bank of India" being the first.

- From the time bank of Bengal (1806), qualitative and quantitative changes taken place
- Reserve Bank of India came in 1935. Became the central banking authority in 1965.
- Banking Companies Act passed in 1949.
- Formation of State Bank of India in 1955.
- Nationalization of 14 major banks in 1969. 7 more in 1980.
- In the 1990s, greater emphasis being placed on technology and innovation.
- Opening up of economy, implementations of recommendations of the Narsimham committee.

Literature Review

(Ravindran, Reji Kumar, 2012) examines the factors influencing on decision of early a dopter so fm-banking services in Kerala, India. Technology Acceptance Model has used to check customer satisfaction and continu

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ous usage adaptation. There is a strong correlation observed between service quality, satisfaction, and intention to use mobile banking. It has confirmed with the study that after adoption of the technology customer finds more satisfaction on the quality parameter of the service. Perceptions about the trust and risks involved in mobile banking have adverse impact on the service satisfaction. Perceived usefulness and quality is strong predictor than attitude in acceptance intention in TAM.

(Himani Sharma, 2011) highlighted the difficulties encountered by bankers in using E-banking products. There are two significant difficulties in use of E-banking heightened stress and technical bottlenecks. It has observed that like customers, bankers too face difficulty in understanding of E-banking technology. They said that no proper training has provided to them and bank employees do not know how to operate innovative banking products. This leads to frustration and stress. Foreign banks and private sector bank employees are keeping pace with the technology but problem arises in public sector bank employees.

(Robert, 2013) focused on factors influencing mobile banking adoption. Factors such as Relative advantage, compatibility, complexity, risk and service satisfaction are critical for mobile banking adoption. Mobile banking adaptation has become life style of people and hence commercial banks are using mobile banking to promote their services. It has been observed that there existed some correlation between the parameters that measured adoption of mobile banking and observability as well as complexity and indicated a weak negative correlation and weak positive correlation respectively.

(Gadda, Day, 2014) observed that world wide banks used a ware housing for measuring the performance, risk management, profitability analysis and decision support. Implementation of business intelligence capability is important step for bank to strategically using information technology. Most of the banks in India have implanted core banking system solution formulti-channel service delivery. To have integrated view of the data banks need to have business intelligence through information technology.

(Narteh, 2012) investigated the challenges of adapting innovative banking services. Most of the banks have adopted innovative ways to combat competition. Innovative banking is one of the significant ways of achieving competitive advantage. Most significant innovative banking services remains ATM and other numerous cards. Most of the banks have implemented telephone banking, SMS alerts and internet banking for their clients. Author has studied as adoption of innovative banking services is below the expectation. (Sujana, 2011) identified the factors which influence consumers to continue using innovative banking services. The revolution in internet banking has meant that banking activities are no longer to time and geo graphical allocations. Innovative banking products offer 24-hour accessibility to customers. Internet banking provides easier access to bank accounts at lower service charges. It also provides high speed of service with low cost.

Objectives

- To identify the innovations in banking sector.
- To analyse the innovations and study the effectiveness of these innovations in banking.

MATERIALS AND METHODS

The study is based on the secondary data which has been collected through websites, newspapers, magazines, govt reports, books, research papers etc.

DISCUSSION

Economies, in general, and the financial services industry, in particular, have been significantly affected by the "IT revolution" that broke out in recent decades. Therefore, IT development has become unavoidable for the financial services industry, and the banking sector has inevitably led the change by implementing IT-based solutions.

Automated Teller Machines (ATMs)

ATMs were introduced to the Indian banking industry in the early 1990s initiated by foreign banks. Most foreign banks and some private sector players suffered from a serious handicap at that time- lack of a strong branch network. ATM technology was used as a means to partially overcome this handicap by reaching out to the customers at a lower initial and transaction costs and offering hassle free services. Since then, innovations in ATM technology have come a long way and customer receptiveness has also increased manifold. Public sector banks have also now entered the race for expansion of ATM networks. Development of ATM networks is not only leveraged for lowering the transaction costs, but also as an effective marketing channel resource.

Phone and mobile banking

Phone and mobile banking are a fairly recent phenomenon for the Indian banking industry. There exist operative guidelines and restrictions on the type and quantum of transactions that can be undertaken via this route. Phone banking channels function through an Interactive Voice Response System (IVRS) or tele banking executives of the banks. The transactions are limited to balance enquiries, transaction enquiries, stop payment instructions on cheques and funds transfers of small amounts (per transaction limit of Rs 2500, overall cap of Rs 5000 per day per customer). According to the draft guidelines on mobile banking, only banks which are licensed and supervised in India and have a physical presence in India are allowed to offer mobile banking services. Besides, only rupee based services can be offered. Mobile banking services are to be restricted to bank account and credit card account holders which are KYC and AMC compliant.

Internet Banking

Internet banking poses high operational, security and legal risks. This has restrained the development of internet banking in India. The guidelines governing internet banking operations in India covers a number of technological, security related and legal issues to be addressed in relation to internet banking. According to the earlier guidelines, all internet banking services had to be denominated in local currency, but now, even foreign exchange services, for the permitted underlying transactions, can be offered through internet banking. Internet banking can be offered only by banks licensed and supervised in India, having a physical presence in India. Overseas branches of Indian banks are allowed to undertake internet

banking only after satisfying the host supervisor in addition to the home supervisor.

Branch Networking

Networking of branches is the computerization and inter-connecting of geographically scattered stand-alone bank branches, into one unified system in the form of a Wide Area Network (WAN) or Enterprise Network (EN); for the creating and sharing of consolidated customer information/records.

Satellite Banking

Satellite banking is also an upcoming technological innovation in the Indian banking industry, which is expected to help in solving the problem of weak terrestrial communication links in many parts of the country. The use of satellites for establishing connectivity between branches will help banks to reach rural and hilly areas in a better way, and offer better facilities, particularly in relation to electronic funds transfers. However, this involves very high costs to the banks.

Card Based Delivery Systems

Among the card based delivery mechanisms for various banking services, are credit cards, debit cards, smart cards etc. These have been immensely successful in India since their launch. Penetration of these card based systems have increased manifold over the past decade. Aided by expanding ATM networks and Point of Sale (POS) terminals, banks have been able to increase the transition of customers towards these channels, thereby reducing their costs too.

Payment and Settlement Systems

The innovations in technology and communication infrastructure in recent years have impacted banks in a large way through the development of payment and settlement systems, which are central to the major portion of the businesses of banks.

Cheque Truncation System (CTS)

Truncation is the process of stopping the movement of the physical cheque which is to be truncated at some point en-route to the drawee branch and an electronic image of the cheque would be sent to the drawee branch along with the relevant information like the MICR fields, date of presentation, presenting banks etc. Thus, the CTS reduce the probability of frauds, reconciliation problems, logistics problems and the cost of collection.

Electronic Clearing Service

The Electronic Clearing Service (ECS) introduced by the RBI in 1995, is akin to the Automated Clearing House system that is operational in certain other countries like the US. ECS has two variants- ECS debit clearing and ECS credit clearing service. ECS credit clearing operates on the principle of 'single debit multiple credits' and is used for transactions like payment of salary, dividend, pension, interest etc. ECS debit clearing service operates on the principle of 'single credit multiple debits' and is used by utility service providers for collection of electricity bills, telephone bills and other charges

and also by banks for collections of principal and interest repayments. Settlement under ECS is undertaken on T+1 basis. Any ECS user can undertake the transactions by registering themselves with an approved clearing house.

Electronic Funds Transfer Systems

The launch of the electronic funds transfer mechanisms began with the Electronic Funds Transfer (EFT) System. The EFT System was operationalized in 1995 covering 15 centres where the Reserve Bank managed the clearing houses. Special EFT (SEFT) scheme, a variant of the EFT system, was introduced with effect from April 1, 2003, in order to increase the coverage of the scheme and to provide for quicker funds transfers. SEFT was made available across branches of banks that were computerised and connected via a network enabling transfer of electronic messages to the receiving branch in a straight through manner (STP processing). In the case of EFT, all branches of banks in the 15 locations were part of the scheme, whether they are networked or not. A new variant of the EFT called the National EFT (NEFT) was decided to be implemented (November 2005) so as to broaden the facilities of EFT. This was a nationwide retail electronic funds transfer mechanism between the networked branches of banks. NEFT provided for integration with the Structured Financial Messaging Solution (SFMS) of the Indian Financial Network (INFINET). As the NEFT system stabilized over time, the number of settlements in NEFT was increased from the initial two to six. NEFT now provides six settlement cycles a day and enables funds transfer to the beneficiaries account on T+0 basis, bringing it closer to real time settlement.

RTGS

The other payment and settlement systems deployed were mostly aimed at small value repetitive transactions, largely for the retail transactions. The introduction of RTGS in 2004 was instrumental in the development of infrastructure for Systemically Important Payment Systems (SIPS).

Bancassurance

Bancassurance is the term used to describe the sale of insurance products in a bank. Banks give you peace of mind with Bancassurance. One receives coverage and saves money at the same time. You can choose the right option which benefits you the most.

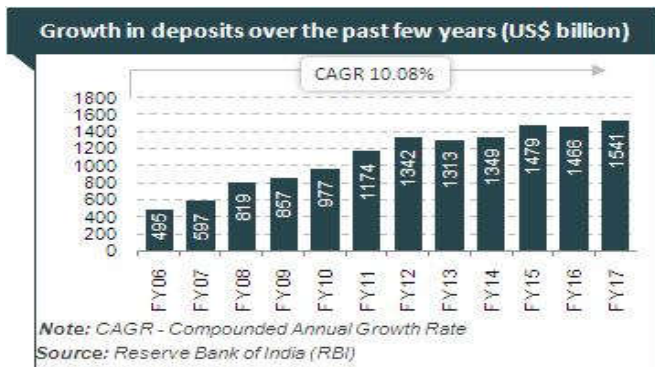
Core Banking Solutions (CBS)

Core banking (stand for "centralized online real-time exchange") is a banking services provided by a group of networked bank branches. Here customers may access their bank account and perform basic transactions from any of the member branch offices. Larger businesses are managed via the Corporate banking division of the institution.

This change has brought a series of advantages

- The total cost of IT systems has been significantly and sustainably reduced.
- Customer information across core channels has become more consistent.

- Time to market new and innovative products without new coding has considerably decreased.
- Due to a higher degree of automation, processing capability has become more direct, so service standards are enhanced and risks reduced.
- As more rapid and efficient systems are being released for additional capacity, scalability and cost reductions increase.
- Open communication standards with new applications encourage integration.
- There is a greater possibility to expand according to requirements.
- Another influence is that online banking opens new possibilities to make an economic agreement between countries, stimulating trade of products and services by involving countries to transfer money from one state to another. This could imply to some benefit agreements as transaction cost could be lower and the relationship between countries can grow year by year bringing more mutual profits.



The benefits banks have received, thanks to IT development, have been certainly great, especially considering that productivity has been enhanced and costs reduced due to increased profitability and labor saving. As a consequence, IT development in banks has been inevitably concentrated on banking products, and retail and wholesale IT products have had a favorable impact on productivity and profitability. Since both IT capital investments and IT human resources are positively related to productivity, the use of IT solutions has increased outputs and reduced costs. Furthermore, the banks' competitiveness has been enhanced thanks to differentiation and customer service improvement, reduction of transaction costs, the ability to better avoid risk, and maintenance of a stable customer base and market share. According to the "Information Economy Report (2007-2008)" by the UNCTAD secretariat there are some statistics and theoretical evidence that proves that using Information Communication Technology (ICT) had influenced the countries in economic aspect very much.

The usage of E-banking or online banking and e-payment for the retail and corporate concluded that it was less expensive for commercial bank and very convenient for household, government and businesses. Asymmetric information as a basic problem in financial markets seems to diminish through time as well. In the case of getting a job, having an online banking account would imply that pension funds, private equity, and insurance companies will be supported in managing more money flow. The circulation of cash money is going to decrease while the electronic money is being more usable.

Conclusion

Mr Bill Gates, Co-founder of Microsoft Corp, has stated that India will move quite rapidly to a digital payments economy in as little as seven years, based on the introduction of digital payment banks combined with other things like direct benefit transfers, universal payments interface and Aadhaar. The banking sector in India has become stronger in terms of capital and the number of customers. It has become globally competitive and diverse aiming, at higher productivity and efficiency Exposure to world-wide and deregulation in Indian financial sector has led to the emergence of better quality of products and services. Reforms have changed the face of Indian banking industries. "With new opportunities unfolding banking sector India is emerging as a global power in banking services within a short period".

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