International Journal of Research in Social Sciences
Vol. 8 Issue 3, March 2018,
ISSN: 2249-2496 Impact Factor: 7.081
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gate as well as in Cabell's Directories of Publishing Opportunities, U.S.A

DIGITALIZED BANKING SYSTEM IN INDIA: TWENTYFIRST CENTURY OVERVIEW

Dr. Rajan Kumar, Associate professor
Department of Commerce, SSM College, Dinanagar

Abstract:

Today banking is known as innovative banking. Information technology has given rise to new innovations in the product designing and their delivery in the banking and finance industries. Customer services and customer satisfaction are their prime work. These are the main stimulus for the economic progress of a country. A strong banking and finance sector is, therefore, necessary for a country to emerge as a developed one. It is vital for growth, creation of jobs, generation of wealth, eradication of poverty, encouraging entrepreneurial activity and increasing the gross domestic product. The focus is shifting from mass banking to class banking with the introduction of value added and customized products.

The paper attempts to present the emerging trends and its challenges that recently emerged in the banking sector with special emphasis on digitization and currency fluctuation. It will be useful to the academicians, banking and insurance personnel, financial advisors, professionals, students and researchers.

Keywords: Digitalization, Currency, RBI, Banks.

INTRODUCTION:

In the recent years, there is a notable drop in the usage of branches and tremendous increase in digital banking consumption. Most of the private banks and public sector banks are focused on offering new technology-based services to its customers like mobile banking, mobile banking apps and e-wallets. The biggest advantage of digital channeling in banking is its ability to provide new propositions and customer specific business models by analysing this banking pattern which explores the customer value to the maximum.

Financial institutions or banks are one of the integral parts of our country that not only represents financial structure but act as a pillar to the country. Today Indian banking sectors not only confined to physical transactions but with the growth of internet and commerce has transformed the world into the Global Village, it help the computers to take over the bank counters and to convert brick banking into electronic banking.

ROLE OF FINANCIAL SYSTEM:

The financial system plays a significant role in developing and strengthening an economy. As it is rightly said strength of an economy depends on the strength of its financial system. In other words the financial system helps in the transformation of saving into investment and consumption. Financial system can be divided into two categories:

- Organized Sector
- Unorganized Sector

Organised sector includes a nationalized banking structure. Co -operative banks and development banks are established under various enactments as well as the private sector. Reserve bank of India also plays a vital role it regulates the workings of these entities. The second category that is unorganized sector includes money lenders, indigenous bankers, pawnbrokers, traders.

MAJOR DEVELOPMENT IN BANKING BETWEEN 1970 AND 1980:

- Setting targets for priority sector lending (1973-74).
- Prescription of norms for lending and working capital limits (1974-75).
- Prof. Chakrabarty's report on monitor system in India (1982-83).
- Establishment of the National Bank for Agriculture and Rural Development (NABARD) (1982-83).
- Introduction of MICR technology (1985-86).
- Introduction of Health Code system for Bank loans (1985-86).
- Permission to banks to float mutual funds (1987-88).
- Vaghul working group on Money Market (1987-88).
- Establishment of the Discount and Finance House of India (DFGI) and the National Housing Bank(NHB) (1988-89).
- Adoption of Service Area Approach (1988-89).
- Enhancement of access to call money market in terms of numbers of participant(1989-90).
- Establishment of the Small Industries Development Bank of India(SIDBI) (1989-90).

1990 Onwards: Era of Reform

- The government of India has launched an extensive economic reform programme.
- The main objective of the reform is to promote efficiency of the banking system through intensified competitive forces
- The strategy adopted is to improve operational efficiency and to impart functional autonomy through reduced state direct intervention in the workings of the institutions.

ROLE OF RBI:

Reserve bank of India established in 1935,under the Reserve Bank of India Act 1934,acts as a guide, regulator, controller and promoter of financial system. RBI is the apex of banking system. Main functions are:

- Note Issuing Authority
- Banker to Government
- Supervision and Controller of Banks
- Banker to banks
- Controller of credit
- Foreign exchange control and management.

RECENT TRENDS IN BANKING SYSTEM:

Technology has changed the accounting and management system of all banks. And it is now changing the way how banks are delivering services to their customers

Automatic Teller Machine (ATM):- Automatic Teller Machine is the most popular devise in India, which enables the customers to withdraw their money 24 hours a day 7 days a week. It is advised 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.

Tele Banking: - Tele Banking facilitates the customer to do entire non-cash related banking on telephone. Under this devise Automatic Voice Recorder is used for simpler queries and transactions. For complicated queries and transactions, manned phone terminals are used.

Electronic Clearing Service (ECS):- Electronic Clearing Service is retail payment systems 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.

Electronic Funds Transfer (EFT) :- Electronic Funds Transfer (EFT) is a system where by 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.

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.

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.

Credit Cards: - It is the facility which help the customers to not to carry cash everywhere it facilities the customers to buy the product/ services without making immediate payment and that payment could be made at a later stage of time. In general, the better your credit score, the better the cards you can qualify for. The most generous rewards rates, the best perks and the lowest interest rates are available to those with excellent credit.

Mobile Banking: - It is a service provided by banks to customers to conduct financial transactions using mobile ,thus it help in the easy accessibility of their account by just punching few letters on mobile .Various service like balance enquiry, bill payment, placing a stop payment on cheques.

CHALLENGES:

Customer Satisfaction / Loyalty:- Today, customers are more value oriented in their services because they have alternative choices in it. Hence, each and every bank has to take care about fulfillment of customers' satisfaction.

To Provide several personnel services:- The present times demanded that banks are to provide several services for which they have to expanse in service, social banking with financial possibilities, selective up gradation, computerization and innovative mechanization, better customer services, effective managerial culture, internal supervision and control, adequate profitability, strong organization culture etc. Therefore banks must be able to provide complete personal service to the customers who come with expectations.

Non-Performing Assets (N.P.A):- Non-performing assets are another challenge to the banking sector. Vehicle loans and unsecured loans increases N.P.A. which terms 50% of banks retail portfolio was also hit due to upward movement in interest rates, restrictions on collection practices and soaring real estate prices. Therefore, every bank has to take care about regular repayment of loans.

Competition:- The nationalize 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, new market trends, cross selling etc. Banks are restricting their administrative folio by converting manpower into machine power i.e. banks are decreasing manual powers and getting maximum work done through machine power. Skilled and specialized man power is to be utilized and result oriented targeted staff will be appointed.

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 advances Managing technology is therefore, a key challenge for the Indian banking sector.

Deteriorating Asset Quality of PSU banks: - The major issue for PSU banks is deteriorating asset quality as reflected in burgeoning NPA and restructured advances. Also, employee expenses, one of the key cost elements, has been going undue to periodic wage negotiations and increasing retirement benefits. Top management continuity has been another key challenge as most of the chairmen and executive directors retire less than 2-3 years into the role. Competitive intensity from private banks has increased even more as they are trying to grow in the semi-urban and rural areas, a home turf for PSU banks till recently. PSU Banks fee income is poorer than private banks and also is largely linked to balance sheet (loans and guarantee related) whereas private banks have a stronger fee income business coming from diversified sources. (BNPP IP report).

Government Ownership:- At present, the Government is the owner of about three-fourths of the total assets in the banking system. On the ownership issues, proponents of private sector banks advocate that Government should reduce its ownership stake in the public sector banks as private sector banks score over public sector banks in profitability and efficiency. However, broadly over the years, the performance of public sector banks has converged with that of new private sector banks and foreign banks. On one hand, the predominance of government owned banks in India has contributed to financial stability, on the other, meeting their growing capital needs casts a very heavy burden on the Government. What is, therefore, needed is an optimal ownership mix to promote a balance between efficiency, equity and financial stability (RBI Paper).

Gaps in the Flow of Credit:- A high proportion of socially and economically underprivileged sections of society in India is concentrated in the informal economic activities since more than 60 per cent of India's population lives in rural areas. This sector holds importance due to growing inter linkages between informal and formal economic activities. Available data indicate that the cooperatives, commercial banks, and other formal financial sector programs in rural areas have not displaced informal sources of credit altogether as 43 per cent of rural households continue to rely on informal finance in 2002, when the last All India Debt and Investment Survey was undertaken. (RBI Discussion paper 2013).

ADVANTAGES OF E-BANKING:

Authentication: Whenever customers want to connect to the bank, he has to necessarily enter the PIN each time. The PIN is an authority and only the authorized person can use it.

Privacy: Technique like SSL,RCS provide integrity and security to those involved financial transaction. The encryption system scrambles data package sent from a computer to the server.

Identification and Password: Assigning a correct password ensures the only authorization for data access. Password is the first step in which whole process of security is involved.

Transaction confirmation/ Monitoring: It provides the record of all completed transactions.

No time constrain: Online banking can be done 24/7 easily with accessibility of internet.

Pay bill online: Pay bills online through your bank or directly through the website of your service provider.

- Set up automatic bill payments for bills that do not change.
- Watch out for convenience fees associated with online bill pay.

DISADVANTAGES OF E- BANKING:

Cyber Crime: First computer crime was reported in 1958 in the U.S. This crime involved substantial and strategic alteration of the bank statements.

Customer Service: **online banks have started chatting features and offer customer service numbers for those with questions and inquire started, but still it can't be compare to the customer service you'll receive by banking at a physical bank location.**

Time Constraint: Another disadvantage of e-banking is that it may take some time to get the internet account started.

Complexity: Some people avoid using e-banking services, because they find it difficult to understand how it works. Also, the fact that a wrong click can cause monetary losses may be a deterrent.

Trust: Sometime some people can't trust the technology they like to trust another person like them.

Others: While banks offer secure web pages to conduct business transactions, this doesn't guarantee complete safety sometime there is Site Disruption, Site Navigation, User Apprehension, Accessibility.

CONCLUSION:

Indian Banking Industry has shown considerable resilience during the return period. The second generation returns will play a crucial role in further strengthening the system. Indian banking system will further grow in size and complexity while acting as an important agent of economic growth and intermingling different segments of the financial sector. It is sure that the future of banking will offer more sophisticated services to the customers with the continuous product and process innovations. Adoption of stringent prudential norms and higher capital standards, better risk management systems, adoption of internationally accepted accounting practices and increased disclosures and transparency will ensure the Indian Banking industry keeps pace with other developed banking systems.

REFERENCES:

- Chellaswamy P.-(2010), Modern Banking Management? Himalaya Publishing House.
- Edet, O. (2008). Electronic Banking in Banking Industries and its Effects. I J of Investment & Finance. (Volume.3).
- https://www.slideshare.net/mobile/crazykudi/indian-banking-system-and-its-emerging trends
- http://www.mbauniverse.com/article/id/9638/RBI
- https://www.slideshare.net/mobile/ravigundim/importance-of-rbi
- http://kalyan-city.blogspot.in/2011/04/functions-of-banks-important-banking.html?m=1
- https://www.mbaknol.com/business-finance/role-of-information-technology-it-in-the-banking-sector/
- https://www.useoftechnology.com/role-technology-banking-industry/
- http://www.forbesindia.com/blog/digital-navigator/emerging-technologies-in-digital-banking-in-india/
- Banking Theory and practices by Niti Soni and Vandana Gautam

- https://www.investopedia.com/terms/a/atm.asp
- https://www.nerdwallet.com/blog/nerdscholar/credit-card/
- https://www.slideshare.net/mobile/raksha93/echeque
- https://www.superbrokers.ca/library/glossary/terms/e_cheque.php
- http://lexicon.ft.com/Term?term=universal-bank
- https://iedunote.com/what-is-definition-of-offshore-banking
- http://smallbusiness.chron.com/online-banking-disadvantages-2248.html
- https://wealthhow.com/disadvantages-of-internet-banking
- https://www.thebalance.com/three-advantages-of-online-banking-2385804