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EMERGING TRENDS IN BANKING SECTOR IN INDIA

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ABSTRACT

The banking sector plays a vital role in the development of one country's economy. The growth of banking sector depends upon the services provided by them to the customers in various aspects. The growing trend of banking services is found significant after the new economic reforms in India.A well-regulated banking system is a key comfort for local and foreign stake-holders in any country. Prudent banking regulation is recognized as one of the reasons why India was less affected by the global financial crisis. Banks can be broadly categorized as Commercial Banks or Co-operative Banks. Banks which meet specific criteria are included in the second schedule of the RBI Act, 1934. These are called scheduled banks. They may be commercial banks or cooperative banks. Scheduled banks are considered to be safer, and are entitled to special facilities like re-finance from RBI. Inclusion in the schedule also comes with its responsibilities of reporting to RBI and maintaining a percentage of its demand and time liabilities as Cash Reserve Ratio (CRR) with RBI.

Key Words: Banking, internet banking, Reserve bank, structure

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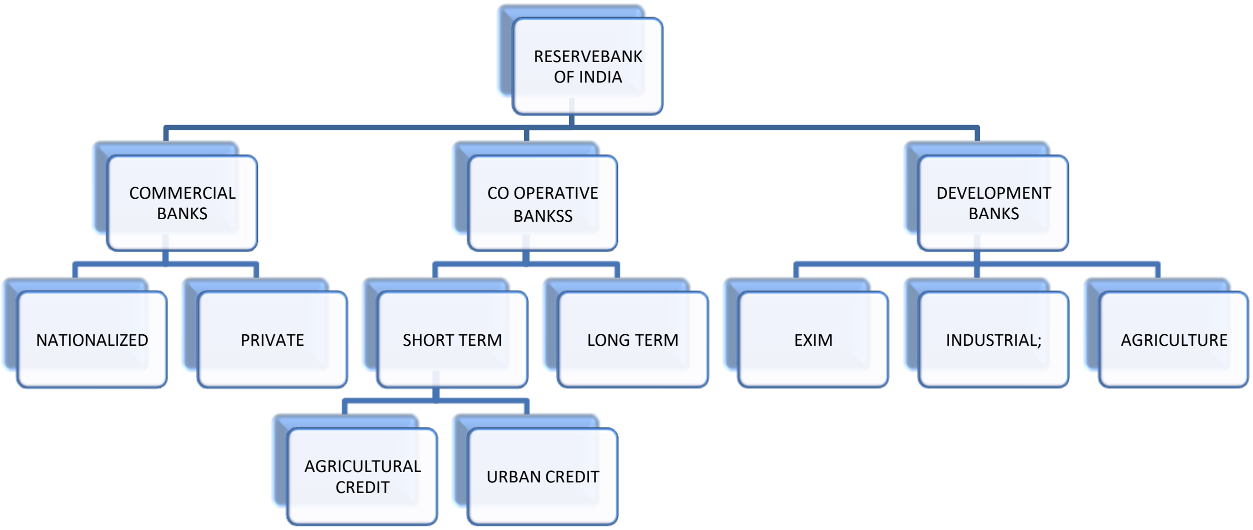
INTRODUCTION

The Banking sector has been immensely benefited from the implementation of superior technology during the recent past, almost in every nation in the world. Productivity enhancement, innovative products, speedy transactions seamless transfer of funds, real time information system, and efficient risk management are some of the advantage derived through the technology. Information technology has also improved the efficiency and robustness of business processes across banking sector. India's banking sector has made rapid strides in reforming itself to the new competitive business environment. Indian banking industry is the midst of an IT revolution. Technological infrastructure has become an indispensable part of the reforms process in the banking system, with the gradual development of sophisticated instruments and innovations in market practices.

Banking Structure in India

A well-regulated banking system is a key comfort for local and foreign stake-holders in any country. Prudent banking regulation is recognized as one of the reasons why India was less affected by the global financial crisis. Banks can be broadly categorized as Commercial Banks or Co-operative Banks. Banks which meet specific criteria are included in the second schedule of the RBI Act, 1934. These are called scheduled banks. They may be commercial banks or co-operative banks. Scheduled banks are considered to be safer, and are entitled to special facilities like re-finance from RBI. Inclusion in the schedule also comes with its responsibilities of reporting to RBI and maintaining a percentage of its demand and time liabilities as Cash Reserve Ratio (CRR) with RBI.



OBJECTIVES OF THE STUDY

1. To examine recent trends and developments in banking sector

2. To present the technological developments in Indian banking sector

3. To study the emerging trends in banking technology.

The Reserve Bank of India:

The RBI is the supreme monetary and banking authority in the country and has the responsibility to control the banking system in the country. It keeps the reserves of all scheduled banks and hence is known as the "Reserve Bank".

Public Sector Banks:

- State Bank of India and its Associates (8)
- Nationalized Banks (19)
- Regional Rural Banks Sponsored by Public Sector Banks (196)

Private Sector Banks:

- Old Generation Private Banks (22)
- Foreign New Generation Private Banks (8)
- Banks in India (40)

Co-operative Sector Banks:

- State Co-operative Banks
- Central Co-operative Banks
- Primary Agricultural Credit Societies
- Land Development Banks
- State Land Development Banks

Development Banks:

Development Banks mostly provide long term finance for setting up industries. They also provide short-term finance (for export and import activities)

- Industrial Finance Co-operation of India (IFCI)
- Industrial Development of India (IDBI)
- Industrial Investment Bank of India (lIBI)
- Small Industries Development Bank of India (SIDBI)
- National Bank for Agriculture and Rural Development (NABARD)
- Export-Import Bank of India

Commercial banks

Commercial banks comprising public sector banks, foreign banks, and private sector banks represent the most important financial intermediary in the Indian financial system. The changes in banking structure and control have resulted due to wider geographical spread and deeper penetration of rural areas, higher mobilization of deposits, reallocation of bank credit to priority activities, and lower operational autonomy for a bank management. Public sector commercial banks, dominate the commercial banking scene in the country. The largest commercial Banks in India is SBI

Cooperative Bank

These banks play a vital role in mobilizing savings and stimulating agricultural investment. Co-operative credit institutions account for the second largest proportion of 44.6% of total institutional credit. The co-operative sector is very much useful for rural people. The co-operative banking sector is divided into the following categories.

State co-operative Banks

Central co-operative banks

Primary Agriculture Credit Societies

Development Banks

A development bank: may be defined as a financial institution concerned with providing all types of financial assistance to business units in the form of loans, underwriting, investment and guarantee operations and promotional activities-economic development in general and industrial development in particular

A development bank: is basically a term lending institution. It is a multipurpose financial institution with a broad development outlook.

The industrial finance corporation of India, the first development bank: was established in 1948. Subsequently many other institutions were set-up. Ex. IDBI, IFCI, SIDBI etc. .

Functions of Development Banks

- Fostering industrial growth
- Providing Long term assistant
- Balanced development
- Providing Promotional services
- Infrastructure building
- Entrepreneur Development
- Fulfilling Socio economic objectives

The Role of Reserve Bank of India (RBI) -Banker's Bank

The Reserve Bank of India (RBI) is the central bank of India, and was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934. Since its inception, it has been headquartered in Mumbai. Though originally privately owned, RBI has been fully owned by the Government of India since nationalization in 1949. RBI is governed by a central board (headed by a Governor) appointed by the Central Government.RBI has 22 regional offices across India. The Reserve Bank of India was set up on the recommendations of the Hilton Young Commission.

DEVELOPMENTS IN INDIAN BANKING SECTOR

Credit Card: Credit Card is "post paid" or "pay later" card that draws from a credit line-money made available by the card issuer (bank) and gives one a grace period to pay. If the amount is not paid full by the end of the period, one is charged interest

Debit Cards: Debit Card is a "prepaid" or "pay now" card with some stored value. Debit Cards quickly debit or subtract money from one's savings account, or if one were taking out cash. Every time a person uses the card, the merchant who in turn can get the money transferred to his account from the bank of the buyers, by debiting an exact amount of purchase from the card. To get a debit card along with a Personal Identification Number (PIN).

Automatic Teller Machine: The ATM's are used by banks for making the customers dealing easier. ATM card is a device that allows customer who has an ATM card to perform routine banking transaction at any time without interacting with human teller. It provides exchange services. This service helps the customer to withdraw money even when the banks are closed. This can be done by inserting the card in the ATM and entering the Personal Identification Number and secret Password. It allows the customers

1. To transfer money to and from accounts.
2. To view account information.
3. To order cash.
4. To receive cash.

Electronic Funds Transfer (EFT):. The system called electronic fund transfer (EFT) automatically transfers money from one account to another. This system facilitates speedier transfer of funds electronically from any branch to any other branch. In this system the sender and the receiver of funds may be located in different cities and may even bank with different banks. Funds transfer within the same city is also permitted. The scheme has been in operation since February 7, 1996, in India.

Telebanking: Telebanking refers to banking on phone services. A customer can access information about his/her account through a telephone call and by giving the coded Personal Identification Number (PIN) to the bank. Telebanking is extensively user friendly and effective in nature.

Mobile Banking: A new revolution in the realm of e-banking is the emergence of mobile banking. On-line banking is now moving to the mobile world, giving everybody with a mobile phone access to real-time banking services, regardless of their location. It provides a new way to pick up information and interact with the banks to carry out the relevant banking business. The potential of mobile banking is limitless and is expected to be a big success. Booking and paying for travel and even tickets is also expected to be a growth area. This is a very flexible way of transacting banking business.

Internet Banking: Internet banking involves use of internet for delivery of banking products and services. Banking is no longer confined to the branches where one has to approach the branch in person, to withdraw cash or deposits a cheque or request a statement of accounts. In internet banking, any inquiry or transaction is processed online without any reference to the branch (anywhere banking) at any time.

Benefits of Internet Banking:

Reduce the transaction costs of offering several banking services and diminishes the need for longer numbers of expensive brick and mortar branches and staff.

Increase convenience for customers, since they can conduct

- Many banking transaction 24 hours a day.
- Increase customer loyalty.
- Improve customer access.
- Attract new customers.

Easy online application for all accounts, including personal loans and mortgages

National Electronic Funds Transfer (NEFT): National Electronic Funds Transfer (NEFT) is a nation-wide system that facilitates individuals, firms and corporate to electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country.

•In order to issue the instruction, the transferor should know not only the beneficiary's bank account number but also the IFSC (Indian Financial System Code) of the concerned bank.

•IFSC is an alpha-numeric code that uniquely identifies a bank-branch participating in the NEFT system. This is a 11 digit code with the first 4 alpha characters representing the bank, and the last 6 numeric characters representing the branch. The 5th character is 0 (zero). IPSC is used by the NEFT system to route the messages to the destination banks / branches

•Real Time Gross Settlement (RTGS): RTGS transfers are instantaneous unlike National Electronic Funds Transfer (NEFT) where the transfers are batched together and effected at hourly intervals. RBI allows the RTGS facility for transfers above Rsllakhs. The RBI window is open on weekdays from 9 am to 4.30 pm; on Saturdays from 9 am to 12.30 pm

Society for Worldwide Interbank Financial Telecommunications (SWIFT):

SWIFT is solely a carrier of messages. It does not hold funds nor does it manage accounts on behalf of customers, nor does it store financial information on an on-going basis. As a data carrier, SWIFT transports messages between two financial institutions. This activity involves the secure exchange of proprietary data while ensuring its confidentiality and integrity.

•SWIFT, which has its headquarters in Belgium, has developed an 8-alphabet Bank Identifier Code (BIC). The BIC helps identify the bank

SARFAESI Act

Banks utilize the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI) as an effective tool for NPA recovery. It is possible where non-performing assets are backed by securities charged to the Bank by way of hypothecation or mortgage or assignment. Upon loan default, banks can seize the securities (except agricultural land) without intervention of the court.

The SARFAESI Act, 2002 gives powers of "seize and desist" to banks.

Banks can give a notice in writing to the defaulting borrower requiring it to discharge its liabilities within 60 days. If the borrower fails to comply with the notice, the Bank may take recourse to one or more of the following measures:

- ❖ Take possession of the security for the loan
- ❖ Sale or lease or assign the right over the security
- ❖ Manage the same or appoint any person to manage the same
- ❖ The SARFAESI Act also provides for the establishment of asset reconstruction companies regulated by RBI to acquire assets from banks and financial institutions.
- ❖ The Act provides for sale of financial assets by banks and financial institutions to asset reconstruction companies (ARCs). RBI has issued guidelines to banks on the process to be followed for sales of financial assets to ARCs.

SARFAESI gives another window for banks and financial institutions to enforce their security interest without the intervention of Civil Court or the Debt Recovery Tribunal (DRT). **If** the lender also holds security through a pledge of any moveable assets, or the guarantee of any person, then it can sell the pledged goods or proceed against the guarantor without initiating any action against the secured assets.

Under SARFAESI, the bank or financial institution needs to give 60-day notice to the defaulter, giving details of the amount payable and the secured asset intended to be enforced by the secured creditor, in the event of non-payment of the secured debt. The effect of this notice is that the borrower is barred from transferring the property mentioned in the notice.

If the dues are not paid during the notice period, then the secured creditor gets the following rights:

1. Take possession of the secured assets, and transfer it by lease, assignment or sale for realization of money.
2. Appoint a manager to manage the secured assets that have been re-possessed.
3. Takeover management of the secured assets, and transfer it by lease, assignment or sale for realization of money.

4. Give notice to any person who has acquired the secured asset from the borrower, and from whom any money is due or may become due to the borrower, to pay the moneys to the secured creditor. Such payment to the secured creditor will be a valid discharge of the person's dues to the borrower

BASEL Framework

•Bank for International Settlements (BIS) :

•Established on 17 May 1930, the BIS is the world's oldest international financial organization. It has its head office in Basel, Switzerland.

•BIS fosters co-operation among central banks and other agencies in pursuit of monetary and financial stability. It fulfills this mandate by acting as:

•A forum to promote discussion and policy analysis among central banks and within the international financial community

•A centre for economic and monetary research

•A prime counterparty for central banks in their financial transactions

•Agent or trustee in connection with international financial operations

•Every two months, the BIS hosts in Basel, meetings of Governors and senior officials of member central banks. The meetings provide an opportunity for participants to discuss the world economy and financial markets, and to exchange views on topical issues of central bank interest or concern.

•BIS also organizes frequent meetings of experts on monetary and financial stability issues, as well as on more technical issues such as legal matters, reserve management, IT systems, internal audit and technical cooperation.

•BIS is a hub for sharing statistical information among central banks. It publishes statistics on global banking, securities, foreign exchange and derivatives markets.

• Through seminars and workshops organized by its Financial Stability Institute (FSI), the BIS disseminates knowledge among its various stake-holders

Role of Information Technology (IT) In Banking Sector

○ Banking environment has become highly competitive today. To be able to survive and grow in the changing market environment banks are going for the latest technologies, which is being perceived as an 'enabling resource' that can help in developing learner and more flexible structure that can respond quickly to the dynamics of a fast changing market scenario.

o It is also viewed as an instrument of cost reduction and effective communication with people and institutions associated with the banking business.

o Information Technology enables sophisticated product development, better market infrastructure, implementation of reliable techniques for control of risks and helps the financial intermediaries to reach geographically distant and diversified markets.

E-Banking

Many banks have modernized their services with the facilities of computer and electronic equipments. The electronics revolution has made it possible to provide ease and flexibility in banking operations to the benefit of the customer.

The e-banking has made the customer say good-bye to huge account registers and large paper bank accounts

The e-banks, which may call as easy bank offers the following services to its customers

- Credit Cards - Debit Cards
- ATM
- E-Cheques
- EFT (Electronic Funds Transfer)
- D-MAT Accounts
- Mobile Banking
- Telephone Banking
- Internet Banking
- EDI (Electronic Data Interchange)

Benefits of E-banking

To the Customer

➢ Anywhere Banking no matter wherever the customer is in the world. Balance enquiry, request for services, issuing instructions etc., from anywhere in the world is possible.

➢ Anytime Banking - Managing funds in real time and most importantly, 24 hours a day, 7days a week.

- Convenience acts as a tremendous psychological benefit all the time.
- Brings down "Cost of Banking" to the customer over a period a period of time.
- Cash withdrawal from any branch / ATM.
- On-line purchase of goods and services including online payment for the same.
- Innovative, scheme, addresses competition and present the bank as technology driven in the banking sector market.
- Reduces customer visits to the branch and thereby human intervention
- Inter-branch reconciliation is immediate thereby reducing chances of fraud and misappropriation
- On-line banking is an effective medium of promotion of various schemes of the bank, a marketing tool indeed.
- Integrated customer data paves way for individualized and customized services.

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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