IS INDIAN BANKING SECTOR DEPENDENT ON TECHNOLOGY?

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ABSTRACT
Technology has brought a complete paradigm shift in the functioning of banks and delivery of banking services. Gone are the days when every banking transaction required a visit to the bank branch. The growth of the internet, mobiles and communication technology has added a different dimension to banking. The information technology (IT) available today is being leveraged in customer acquisitions, driving automation and process efficiency, delivering ease and efficiency to customers. India’s transformational journey to modernity is on the cusp of revolutionary change. Still, there is the great rural-urban divide waiting to be bridged; rural India has to connect with the mainstream economy. This has to be a harmonious progression and technology is the de facto agent that can ring in wholesome changes. Banks would do well to realize their central role in enabling this transformation and should take conscious recourse to relentless adoption of technology. And the goal should be not just to satisfy but to engage with customers and enrich their experience.

KEYWORDS: Banking Sector, Technology

INTRODUCTION
In India, banking as an institution originated in the late 18th century and primarily catered to the needs of the British. Post-independence, the nationalization of major private sector banks in 1969 – an important milestone in the Indian banking system made banking accessible to the unbanked population in India. The economic liberalization in the early 1990s ushered in the era of privatization wherein many new private banks the ‘new generation tech-savvy banks’ were launched. A few foreign banks commenced their India operations as well. All these banks were quick to leverage emerging technology, were competitive in wooing customers and winning them over by providing professional services. This helped infuse a sense of urgency in public sector banks and older private sector banks to mend their ways, which in turn completely revitalized banking operations in India.
Impact of the IT revolution

The opening up of the Indian economy in 1991 almost corresponded with the worldwide Internet revolution which doubly impacted the Indian private and public sector banks that were still stuck in old ways of functioning. Once Indian IT services companies started booming, it was just a matter of time before Indian banks wholeheartedly embraced technology. This paved the way for business process automation in banking, which enhanced customer service, reduced manpower costs and increased profitability. Apart from normal banking products, Indian banks started selling third party products such as mutual funds and insurance to their clients as well. This single window selling saved the customer’s time and enabled the bank to enrich the relationship.

The Reserve Bank of India, India’s Central Bank, not to be left behind, played its part in this transformational journey, by issuing regulations and recommendations on banking mechanization and computerization. Establishment of computerized inter-connectivity across bank branches, introduction of MICR based cheque clearing, modernization of payment services and settlements through Electronic Clearing Services (ECS), Real Time Gross Settlement System (RTGS), National Electronic Funds Transfer (NEFT), were all significant landmarks in the banking technology revolution.

Continuing advances in technology rise in middle class income levels, and increase in demand from a consumer-oriented financial market, soon catapulted the Indian banking sector to a customer centric, technology driven, financial supermarket catering to the varied needs of its customers.

IT Considerations

Since the early nineties, each Indian bank has done some IT improvement effort. The first and foremost compulsion is the fierce competition. While deciding on the required architecture for the IT consideration is given to following realities.

- **Meeting Internal Requirement:** The requirements of the banks are different individually depending upon their nature and volume of business; focus on a particular segment, spread of branches and a like. Many a time’s banks do have the required information but it is scattered. The operating units seldom know the purpose of gathering the information by their higher authorities.

- **Effective in Data Handling:** As stated earlier the banks have most of the needed data but are distributed. Further the cost of collection of data and putting the same to use is
prohibitively high. The accuracy and timeliness of data generation becomes the causalities in the process. Best of the intentions on computerization are wished away because there is non-visible reduction in cost /efforts/time required for the required data gathering.

- **Extending Customer Services:** Addressing to rising customers expectations is significant particularly in the background of increased competition. In case bank A is unable to provide the required service at a competitive price and in an accurate manner with speed. There is always a bank IT at its next-door waiting to hire the customer. Awareness of customers about the availability of services and their pricing as also available options have brought into sharp focus the issue of customer satisfaction.

- **Creative Support for New Product Development:** It has become necessary for the banks to vitalize the process of product development. Marketing functionaries needs a lot of information not only from the outside sources but also from within the banks. Banks are looking to retail segment as the future market places for sales efforts. Having full-fledged information of existing customer is the key for this purpose. The emergences of data requirement and an appropriate architecture to support the same are significant issues to be handled in this regard.

- **End-user Development of the Non-technical Staff:** Banking being a service industry, it is the staffs at counters that deliver the products. In Indian scenario, virtual banking is likely to have a few more years to establish. The dependence on counter staff is unavoidable. The staffs are large in number and the majority is non-technical. The customer satisfaction levels at the counter determine the ultimate benefit of IT offensive. Giving due consideration to this aspect in choosing architecture in necessary.

**Significant milestones**

Over the years, there has been a noticeable shift from traditional to channel-based banking. Introduction of ATMs (Automated Teller Machines) provided customers with “any time” access to their money. The credit card by enabling cashless transactions, unleashed a revolution in the banking world. Affordable technology infrastructure like cheap, small but powerful computers and other handheld gadgets and higher Internet bandwidth at lower cost facilitated easy access to banking products and effortless banking transactions. Call centre
and phone banking services further added to customer convenience. By directing banking transactions through different electronic channels and by providing customers direct access to their bank accounts, banks could now offer quick service and transparency as well. They even started offering incentives to customers for using non-branch channels. All this reduced the number of walk-in customers and improved the quality of customer service in branches.

The next noteworthy milestone was the introduction of mobile banking primarily through SMS. The launch of smart phones created a revolution of sorts in the banking world and smart phones are now a widely accepted delivery channel in developed countries. As the number of mobile phone users in India rapidly increases, banks are exploring the feasibility of using the ubiquitous device as an alternative channel for delivery of full-fledged banking services.

Innovative services offered by the Banks

- **Electronic Payment Services – E-Cheque:** Nowadays we are hearing about e-governance, email, 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.

- **Real Time Gross Settlement (RTGS):** Real Time Gross Settlement system, introduced in India since March 2004, is a Interlink Research Analysis system through which electronics instructions can be given by banks to transfer funds from their account to the account of another bank. The (RTGS) Real Time Gross Settlement 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.

- **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 (Reserve Bank of India) is the service provider of Electronic Funds Transfer (EFT).

- **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.

- **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 a device that allows customer who has an Automatic Teller Machine (ATM) card to perform routine banking transactions without interacting with a human teller. In addition to cash withdrawal, Automatic Teller Machines (ATMs) can be used for payment of utility bills, funds transfer between accounts, deposit of cheques and cash into accounts, balance enquiry etc.

- **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.

- **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 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. Electronic Data Interchange (EDI) can also be used to transmit financial information and payments in electronic form.
• **Society for Worldwide Inter-bank Financial Telecommunications (SWIFT):**
  SWIFT as a cooperative society formed in 1973 with 239 member banks from 15 countries. It provides highly cost effective, reliable, secure and rapid mode of transmitting financial messages worldwide. The network was upgraded in 80s and its revised version is SWIFT II. SWIFT provides 24x7 hour services to the financial institutes and the selected range of its users. It ensures its users against any loss of mutilation against transmission.

**Challenges Ahead:**

It doesn’t stretch one’s imagination to understand that the scale and complexity of banking has undergone tremendous changes in the last 20 years. From the Indian perspective, the evolving banking paradigm presents unique opportunities and challenges. The reason is India is a country with huge population and the demographic growth of India is such that it is going to become the most populated country very soon. Channel technologies can bring about closer integration between the rural and urban populace. The hitch is that the pace of technology adoption, a key feature of the urbanized world, cannot be forced upon the rural population. Here, India needs to learn its lessons from China which has managed to rapidly urbanize its rural population and been able to harness technology to the fuller benefits of its newly urbanized populations.

Another challenge non-branch channels throw up is the lack of human touch that previously characterized banking transactions. The rather impersonal technology-enabled touch screen key presses and automated answering systems might intimidate and overwhelm newly urbanized users who are by and large technology illiterate. It is therefore imperative for banks to ensure that technology is tailored to the needs of different sections of people and is also backed by suitable “humane” yet quick measures in the event of failure or breakdown. The large number of complaints received by the Banking Ombudsman is indicative of the problems of technology proliferation, making it a priority area for Indian banks. Other challenges are:

- Meet customer expectations on service and facility offered by the bank.
- Customer retention.
- Managing the spread and sustain the operating profit.
- Retaining the current market share in the industry and the improving the same.
• Completion from other players in the banking industry.

Other Important Operational Challenges:
• Frequent challenges in technologies used focusing up grades in hardware and software, attending to that implementation issues and timely roll out.
• Managing technology, security and business risks.
• System re-engineering to enable. Defined and implemented efficient processes to be able to reap benefits off technology to its fullest potential.
• Upgrading the skill of work force spread across the country.

With the opening of economy, deregulation, mergers and acquisition of banks, implementation of BASLE II norms, disinvestment of government holding in banks, the competition is going to be increased from new banks and merged entities. This will also open up new opportunities for introduction of a new products and services. A definite trend is emerging as to consolidation of the banking system, sharing of ATM networks and services, tie ups with insurance companies, other billing organizations like mobile operators, electricity and telephone bills and bank for cross selling of various products and services.

How to meet the challenges?
At corporate level to meet the challenges, various initiated have been taken and implementation is in process beside up gradation of data centre facilities:
• Centralization of functions
  o Inward clearing data uploading and processing
  o Check book issues
  o MIS-On-Line Monitoring/Generation of statement by controlling offices
  o Audit from the remote location
  o Sending mails and statement of accounts to customers & completion of non-mandatory field in newly opened accounts.
• Single Window System
• Revised Account opening from for capturing complete customer/Account data as per CBS requirement.
• Call Centre for customers.
• Customer Relationship Management (CRM) Application.
• Data Warehousing.

Conclusion
Overall, the message for Indian banks is very clear. India’s transformational journey to modernity is on the cusp of revolutionary change. There is the great rural-urban divide waiting to be bridged; rural India has to connect with the mainstream economy. This has to be a harmonious progression and technology is the de facto agent that can ring in wholesome changes. Banks would do well to realize their central role in enabling this transformation and should take conscious recourse to relentless adoption of technology. And the goal should be not just to satisfy but to engage with customers and enrich their experience.

It can be said that banking industry in India is concerned it can be said that although the Indian banks may not be as technologically advanced as their counterparts in the developed world, they are following the majority of international trends on the IT front. The strength of Indian banking lie in withering storms and rising up to the expectations from all the quarters-catching up with all the global trends is a matter of time.

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