IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

A STUDY ON INNOVATIVE BANKING SERVICES: AN OVERVIEW

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Abstract

Indian banking system touches the lives of millions of people and it is growing at a fast pace. Banking industry in India is facing number of challenges like changing needs and perceptions of customers, new regulations from time to time and great advances in technologies. The pressure of meeting these challenges have compelled banks to change the old ways Banks no longer restricted themselves to traditional banking activities, but explored newer avenues to increase business and capture new market like e-banking, corporate banking, plastic money, mobile banking etc.,. The present study aims to discuss on importance, challenges and opportunities in banking services.

Keywords: Indian Banking, Innovative Services, Mobile Banking, Opportunities.

Introduction

The banking industry in India has a huge canvas of history, which covers the traditional banking practices from the time of Britishers to the reforms period, nationalization to privatization of banks and now increasing numbers of foreign banks in India. Therefore, Banking in India has been through a long journey. Indian Banking Sector has witnessed a number of changes. It has undergone a huge transformation in the years since Independence. The rate of transformation was particularly high in the 1990s and 2000s, when a number of innovations changed the way banking was perceived and it was the result of autonomous and induced necessities of the environment. In the 1990s, the banking sector in India pronounced greater emphasis being placed on technology and innovation. Banks began to use technology to provide better quality of services at greater speed. Information technology has made it convenient for customers to do their banking from geographically diverse places which earlier remain uncovered.

Banking in India has been through a long journey. Indian Banking Sector has witnessed a number of changes. In the 1990s, the banking sector in India saw greater emphasis being placed on technology and innovation. Banks began to use technology to provide better quality of services at greater speed. Internet banking and mobile banking made it convenient for customers to do their banking from geographically diverse places. Now all the banks have started with the concept of multi- channels, like ATMs, credit cards, debit cards, telephone/mobile banking, internet banking, call centres, etc. The role of banking is redefined from a mere financial intermediary to service provider of various financial services under one roof acting like a financial supermarket. Intense competition among the banks has redefined the concept of the entire banking system. The banks are looking for new ways not only to attract but also to retain the customers and gain competitive advantage over their competitors.

Financial Innovation

Financial innovation is key to survival of banks in contemporary banking environment. The importance of financial innovation is widely recognized. Many leading scholars, including Miller (1986) and Merton (1992), have highlighted the importance of products and services in the financial arena. Innovative ideas are manifest in diverse industries and in different forms. For example innovation in product development is one of the forms of innovation that has been used by banks. Right from the beginning stage of financial modernization innovations have been playing major roles in curtailing financial exclusions and improving the ways banking services are rendered to people. Financial innovation is one of the commonly used banking terminologies. It has been used to describe any change in the scale, scope and delivery of financial services.

The deregulation of financial service industry and increased competition with in investment banking undoubtedly led to increased emphasis on the ability to design new products, develop better process, and implement more effective solution for increasingly complex financial problems. These financial innovations are a result of number of Government regulations, tax policies, globalization, liberalization, privatization, integration with the international financial market and increasing risk in the domestic financial market. Financial innovation is the process through which finance managers or intermediary institutions in financial markets add value to existing plain vanilla products that satisfy the user needs. According to John Finery, “Financial Innovation involves the design, the development, and the implementation of innovative financial instruments and processes, and the formulation of creative solutions to problems in finance”. The various innovations in banking and financial sector are ECS, RTGS, EFT, NEFT, ATM, Retail Banking, Debit & Credit cards, free advisory services, payments of utility bills, fund transfers, internet banking, telephone banking, mobile banking, selling insurance products, issue of free cheque books, travel cheques and many more value added services.

Intense competition among the banks has redefined the concept of the entire banking system. The banks are looking for new ways not only to attract but also to retain the customers and gain competitive advantage over their competitors. The banks

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

like other business organizations are deploying innovative sales techniques and advanced marketing tools to gain supremacy. The main driver of this change is changing customer needs and expectations. Customers in urban India no longer want to wait in long queues and spend hours in banking transactions. This change in customer attitude has gone hand in hand with the development of ATMs, Mobile phone and net banking along with availability of service right at the customer's doorstep. With the emergence of universal banking, banks aim to provide all banking product and service offering less than one roof and their endeavour is to be customer centric. While banks are striving to strengthen customer relationship and move towards 'relationship banking,' customers are increasingly moving away from the confines of traditional branch banking and seeking the convenience of remote electronic banking. Information technology and the communications networking systems have revolutionaries the working of banks and financial entities all over the world.

Banking Innovations

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. Information technology has given rise to new innovations in the product designing and their delivery in the banking and finance industries. Technology offers a chance for banks to build new systems that address a wide range of customer needs including many that may not be imaginable today. Financial innovation associated with technological change totally changed the banking philosophy and that is further tuned by the competition in the banking industry. Challenging business environment within the banking system create more innovation in the fields of product, process and market. Today, we have electronic payment system along with currency notes.

Objective of the Study

- To study how innovations have contributed to the development of Indian banking.
- To identify the different innovative services rendering in the banking sector.
- To study the challenges faced by Indian banks.

Review of Literature

Financial innovations lower cost of capital, reduce financial risks, improve financial intermediation, and hence welfare enhancing. The primary function of financial system is to facilitate the allocation and deployment of economic resources in an uncertain environment (Merton, 1992). Financial innovation is helpful in ensuring smooth functioning and improves the overall efficiency of the system by minimizing cost and reducing risk. More generally, financial innovation has been a central force driving the financial system toward greater economic efficiency (Merton and Bodie 2005).A. vasanthi & Sharma (2000-01) have analyzed in their study that advances in technology are set to change the face of banking business. Technology has transformed the delivery channels by banks in retail banking. It has also impacted the markets of banks. The study also explored the challenges that banking industry and its regulator face. B. Janki (2002) analyzed that how technology is affecting the employees' productivity. There is no doubt, in India particularly public sector banks will need to use technology to improve operating efficiency and customer services. The focus on technology will increase like never before to add value to customer services, develop new products, strengthen risk management etc. the study concludes that technology is the only tool to achieve their goals. Technological change and the advent of the internet are among the most dramatic and challenging areas of change for the sector. Technological innovations have shown the increased productivity as stated by Rishi and Saxena (2004). Study identified that technological innovations in the banking sector in industrialized countries have been shown to increase productivity of banking industry around the world. Arora(2003) highlighted the significance of bank transformation. Technology has a definitive role in facilitating transactions in the banking sector and the impact of technology implementation has resulted in the introduction of new products and services by various banks in India. Hua G. (2009) investigates the online banking acceptance in China by conducting an experiment to investigate how users' perception about online banking is affected by the perceived ease of use of website and the privacy policy provided by the online banking website. Jalan, B. (2003), IT revolution has brought about a fundamental transformation in banking industry. Perhaps no other sector has been affected by advances in technology as much as banking & finance. It has the most important factor for dealing with the intensifying competition & the rapid proliferation of financial innovations. Mittal, R.K. & Dhingra, S.(2007) studied the role of technology in banking sector. They analyzed investment scenario in technology in Indian banks but this study was related to the time period before the Information Technology Act and at that time technology in Indian banks was very low. But both the researchers nicely presented their views. Padhy, K.C. (2007) studied the impact of technology development in the banking system and he also highlights the future of banking sector. The core competencies will provide comparative advantages.

Innovation in Banking Services

Banking industry in India has also achieved a new height with the changing times. Customer services and customer satisfaction are prime responsibilities of banks now days. Information technology has given rise to new innovations in the product designing and their delivery in the banking and finance industries. Technology offers a chance for banks to build new systems that address a wide range of customer needs including many that may not be imaginable today. Banking through internet has emerged as a strategic resource for achieving higher efficiency, control of operations and reduction of cost by replacing paper based and labor intensive methods with automated processes thus leading to higher productivity and profitability. Financial innovation associated with technological change totally changed the banking philosophy and that is further tuned by the competition in the banking industry. Challenging business environment within the banking system create more innovation in the fields of product, process and market.

ATM
An automated teller machine (ATM) is a computerized telecommunications device that provides financial institute customers a secure method of performing financial transactions in a public space without a human clerk or bank teller.

ATM can be interior (i. e., located in the branch premises) or exterior (located anywhere outside the branch premises). Banks need not obtain permission of the RBI for installation of ATMs at branches and extension counters for which they hold licences issued by the Reserve Bank. They can also install offsite ATMs without RBI approval.

The penetration of ATMs across the country increased in 2012-13 with the total number of ATMs crossing 1, 00,000, clocking a double digit growth during the year This growth was driven primarily by private sector banks, with their share in total ATMs picking up rapidly to about 38 per cent. Also Over the years, the relative growth in off-site ATMs has been much more than that of on-site ATMs. As a result, by 2012-13, off-site ATMs accounted for more than half the total ATMs in the country as shown in Table 1:

Table 1: ATMs of Scheduled Commercial Banks(As at end-March2013)

S. No	Bank group	On-site ATMs	Off-site ATMs	Total number of ATMs
1	Public sector banks:	40,241	29,411	69,652
	1.1 Nationalised banks	20,658	14,708	35,359
	1.2 SBI Group	18,708	13,883	32,591
	Private sector banks	15,236	27,865	43,101
2.	2.1 Old private sector banks	4,054	3,512	7,566
	2.2 New private sector banks	11,182	24,353	35,535
3.	Foreign sector banks	283	978	1,261
4.	All SCBs (1+2+3)	55,760	58,254	1,14,014

Source: Report on Trend & Progress of Banking 2010-11

ATMs are widely used electronic channels in banking. It is operated by plastic card with its special features. It is a computer controlled device at which the customers can make withdrawals, check balance without involving any individuals. ATM can be interior (i.e., located in the branch premises) or exterior (located anywhere outside the branch premises). The banks increased their penetration further with the total number of ATMs reaching 0.18 million in 2015. However, there was a decline in growth of ATMs of both Public Sector Banks as well as Private Banks. Public Sector Banks recorded a growth of 16.7 per cent during 2014-15 maintaining a share of around 70 per cent in total number of ATMs. ATM & Card Statistics for December 2015 shows that Total No. of ATM"s are: On-site: 97,793 Off-site: 95,975.

Debit Card
Debit card is a plastic card which provides an alternative payment method to cash when making purchases. Functionally, it can be called an electronic check, as the funds are withdrawn directly from either the bank account or from the remaining balance on the card.

Credit Card
A credit card is part of a system of payments named after the small plastic card issued to users of the system. It is a card entitling its holder to buy goods and services based on the holder's promise to pay for these goods and services. The issuer of the card grants a line of credit to the consumer (or the user) from which the user can borrow money for payment to a merchant or as a cash advance to the user.

Table 2: Credit and Debit Cards Issued by Scheduled Commercial Banks (As at end-March 2013)
(in millions)

S. No	Banking Group	Outstanding Number of Credit Cards		Outstanding Number of Debit Cards	
		2012	2013	2012	2013
1.	Public sector banks	3.1	3.5	214.6	260.6

	1.1 nationalised banks	0.8	0.5	97.7	118.6
	1.2 SBI Group	2.2	2.6	112.0	136.4
2.	Private sector banks	9.7	11.1	60.0	67.3
	2.1 Old private sector banks	0.04	0.04	13.9	15.4
	2.2 New private sector banks	9.6	11.1	46.0	51.9
3.	Foreign banks	4.6	5.0	3.8	3.3
4.	All SCBs(1+2+3)	17.7	19.5	278.4	331.2

Source: Report on Trend & Progress of Banking 2012-2013

Internet Banking

It is a service provided by banks so that people can find out information about their bank account, pay bills etc using the Internet. Internet Banking allows you to conduct bank transactions online, instead of finding a bank and interacting with a teller. In a broad sense, it is the use of electronic means to transfer funds directly from one account to another, rather than by cheque or cash.

RTGS

Real Time Gross Settlement (RTGS) is an electronic form of fund transfer where the transmission takes place on a real time basis. What do you mean by Real Time? What is the Meaning of Gross Settlement"? Here the words 'Real Time' refers to the process of instructions that are executed at the time they are received, rather than at some later time. On the other hand "Gross Settlement" means the settlement of funds transfer instructions occurs individually (on an instruction by instruction basis). The settlement of funds actually takes place in the books of RBI and thus the payments are considered as final and irrevocable. The attraction of RTGS is that the payee banks and their customers receive funds with certainty and finality during the same day enabling them to use the funds immediately without exposing themselves to risk. RTGS system, do not create credit risk for the receiving participant because they settle the each payment individually, as soon as it is accepted, liquidity risks remains, as well as the possibility of the risks being shifted outside the system.

Neft

According to Reserve Bank of India, National Electronic Funds Transfer (NEFT) is a nation-wide payment system to facilitate one-to-one funds transfer. Under NEFT, individuals, firms and corporate can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme. The funds under NEFT can be transferred by individuals, firms or corporate maintaining accounts with a bank branch. Even individuals not having a bank account can deposit cash at the NEFT-enabled branches with instructions to transfer funds using NEFT. However, such cash remittances will be restricted to a maximum of Rs.50, 000/- per transaction. Such walk-in-customers have to furnish full details including complete address, telephone number, etc. NEFT, thus, also help in transfer of funds even without having a bank account. This is a simple, secure, safe, fastest and cost effective way to transfer funds especially for Retail remittances.

Funds Transfer (NEFT) is an Indian system of electronic transfer of money from one bank or bank branch to another. Under NEFT, individuals, firms and corporate can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme. The funds under NEFT can be transferred by individuals, firms or corporate maintaining accounts with a bank branch. Even individuals not having a bank account can deposit cash at the NEFT-enabled branches with instructions to transfer funds using NEFT. However, such cash remittances will be restricted to a maximum of Rs.50, 000/- per transaction. Such walk-in-customers have to furnish full details including complete address, telephone number, etc. NEFT, thus, also help in transfer of funds even without having a bank account. This is a simple, secure, safe, fastest and cost effective way to transfer funds especially for Retail remittances.

Challenges in Banking Sector

Developing countries like India, has a huge number of people who don’t have access to banking services due to scattered and fragmented locations. But if we talk about those people who are availing banking services, their expectations are raising as the level of services are increasing due to the emergence of Information Technology and immense competition between the services and products provided by different banks. Since, foreign banks are playing in Indian market, the number of services offered has increased and banks have laid emphasis on meeting the customer expectations. India's banking sector has made rapid strides in reforming and aligning itself to the new competitive business environment. The major challenges faced by banks today are as to how to cope with competitive forces and strengthen their balance sheet. Today, banks are groaning with burden of NPA‟s. It is rightly felt that these contaminated debts, if not recovered, will eat into the very vitals of the banks. High transaction costs A major concern before the banking industry is the high transaction cost of carrying non- performing assets in their books. The growth led to strains in the operational efficiency of banks and the accumulation of nonperforming assets (NPA‟s) in their loan portfolios. Regulatory pressure Regulatory requirements continue to increase, and banks need to spend a large part of their discretionary budget on being compliant, and on building systems and processes to keep up with the escalating requirements. Timely technological up gradation already electronic transfers, clearings, settlements have reduced translation times. To face competition it is necessary for banks to absorb the technology and upgrade their services. IT revolution The Indian banks are subject to tremendous pressures to perform as otherwise their very survival would be at stake. The application of IT and e-banking is becoming the order of the day with the banking system heading towards virtual banking. Intense Competition the RBI and Government of India kept banking industry open for the participants of private sector banks and foreign banks. Entered the market such private banks, foreign banks, non banking finance companies, The Indian banking sector was introduced to competition when, in accordance with the suggestions of the first Narasimhan Committee, entry was deregulated and both domestic and foreign banks were allowed to expand their branch networks. Due to this lowered entry barriers many new players have etc. The foreign banks and new private sector banks have spearhead the hi-tech revolution. Privacy and Safety Among the most important aspects of savings, i.e., safety, liquidity and profitability, safety is at the top most priority.

Challenges Ahead for Banking Sector

Technological changes in Indian banking system presents unique opportunities and challenges for the banking industry. 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. Managing technology is therefore, a key challenge for the Indian banking sector. Developing countries like India, has a huge number of people who don't have access to banking services due to scattered and fragmented locations. But if we talk about those people who are availing banking services, their expectations are raising as the level of services are increasing due to the emergence of Information Technology and immense competition between the services & products provided by different banks. Since, foreign banks are playing in Indian market, the number of services offered has increased and banks have laid emphasis on meeting the customer expectations.

Specific challenges include ensuring that account transaction applications run efficiently between the branch offices and data centres. Banks in India will now have to work towards a vision to have an enhanced retail delivery system. Such a system would include transformed branches, enhanced telephone services, and leading-edge internet banking functions that provide a consistently positive multi-channel experience for the customer. Some of the challenges that the banks are facing today are:

- Competition from private banks
- Competition from MNCs
- Managing diversified needs of customers
- Diminishing customer loyalty
- Coping with regulatory reforms
- Restructuring and reorganizing banks' setup towards thinner and leaner administrative offices;
- Management of impaired assets.
- Keeping pace with technology up-Gradations

Conclusion

The banking industry is changing at a phenomenal speed. While at the one end, we have millions of savers and investors who still do not use a bank, another segment continues to bank with a physical branch and at the other end of the spectrum, the customers are becoming familiar with ATMs, e-banking, and cashless economy. This shows the immense potential for market. Banks are setting up alternative delivery channels to contain operating costs like off-site ATMs, internet banking, Tele banking, outsourcing, centralized transaction processing, etc.

No doubt, the benefits of technology have brought a sea-change in the outlook of modern banking. Now the goal of banking is not just to satisfy but to engage with customers and enrich their experience and for the successful achievement of this goal, the only sustainable competitive advantage is to give the customer an optimum blend of technology and traditional service. With technology occupying a pivotal role in delivery of banking services, the expectations of the consumer have also been growing. Broadly, these expectations are swift service with minimal response time, efficient service delivery, tailor-made and value-added products to suit specific needs, hassle-free procedures and minimum transaction costs, and pleasant and personalized service.

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