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A PARADIGM SHIFT IN GLOBAL AND INDIAN BANKING SECTOR

Dr.B.**Percy Bose**
Associate professor and Head, Department of Master of Finance and Accounting,
Jyothi Nivas College (Autonomous), Koramangala, Bangalore, India.

Abstract
The banking industry has experienced a series of significant transformations in the last few decades. Among the most important of them is the change in the type of organizations that dominate the landscape. Since the eighties, banks have increased the scope and scale of their activities and several banks have become very large institutions with a presence in multiple regions of the country.' Indian economic environment is witnessing path breaking reform measures. The financial sector, of which the banking industry is the largest player, has also been undergoing a metamorphic change. Today the banking industry is stronger and capable of withstanding the pressures of competition. While internationally accepted prudential norms have been adopted, with higher disclosures and transparency, Indian banking industry is gradually moving towards adopting the best practices in accounting, corporate governance and risk management. Today, we are having a fairly well developed banking system with different classes of banks – public sector banks, foreign banks, private sector banks – both old and new generation, regional rural banks and co-operative banks with the Reserve Bank of India as the fountain Head of the system. In the banking field, there has been an unprecedented growth and diversification of banking industry has been so stupendous that it has no parallel in the annals of banking anywhere in the world. The paper examines the new global and Indian trends in banking sector.

Key Words; Gobalisation, Banking Industry, Recent Trends.

INTRODUCTION

Today, we are having a fairly well developed banking system with different classes of banks – public sector banks, foreign banks, private sector banks, regional rural banks and co-operative banks. The RBI's most important goal is to maintain monetary stability (moderate and stable inflation) in India. The RBI uses monetary policy to maintain price stability and an adequate flow of credit. The rates used by RBI to achieve this are the bank rate, repo rate, reverse repo rate and the cash reserve ratio. Reducing inflation has been one of the most important goals for some time. Growth and diversification in banking sector has transcended limits all over the world. In 1991, the Government opened the doors for foreign banks to start their operations in India and provide their wide range of facilities, thereby providing a strong competition to the domestic banks, and helping the customers in availing the best of the services. The Reserve Bank in its bid to move towards the best international banking practices will further sharpen the prudential norms and strengthen its supervisor mechanism. There has been considerable innovation and diversification in the business of major commercial banks. Some of them have engaged in the areas of consumer credit, credit cards, merchant banking, internet and phone banking, leasing, mutual funds etc.

EMERGING GLOBAL TECHNOLOGY TRENDS IN BANKING

Technology is critical in improving efficiencies, enhancing the customer experience, and achieving regulatory compliance. IT spending by the banking sector is expected to grow by 3.4% in 2013 to reach $179.2 billion and touch $192 billion by 2015. The majority of this growth is expected to come from the Asia-Pacific region, where spending by banks is expected to grow at 5.8% in 2013 to reach $62.8 billion. The retail banking sector dominates IT spending, which is expected to grow by 4.1% in 2013 to reach $96.1 billion and touch $104.5 billion by 2015. Wholesale/corporate banking is the second most important segment, where IT spending is expected to grow by 3.2% in 2013 to reach $48.2 billion and touch $51.4 billion by 2015. In corporate banking spending, North America is expected to register the highest growth rate of 4.7% in 2013.

The following key industry trends are expected to drive increased investments in technology:

Trend 1: Enhance Big Data Capability to Enhance Customer Centricity.

A large number of techniques and systems have been developed to aggregate, structure, and analyze big data. The major challenge that banks face today is the speed at which customer transaction data is increasing every year. In order to analyze this increasing volume of customer data, banks need to invest into big data technologies that can analyze large datasets in real time and customer analytics that can provide real time insights into customer behavior. Big data is a combination of both structured and unstructured data where unstructured data can be both external (such as data coming from Internet usage, social media usage) or internal (such as ATM logs, customer-care call logs). Analytical customer relationship management (CRM) leverages big data to improve the core areas of customer-centricity—such as knowledge of the customer, product channel fit, trust and confidence, customer intimacy, and consistent multi-channel experience. However, there are technological challenges in terms of data capture, data cleaning, and aggregating data to get customer insights.

Implications

Going forward, as banks realize the importance of big data and as technologies continue to develop and mature to enhance big data capabilities, banks will be able to leverage big data to enhance risk-based pricing, prevent frauds in real time, analyze customer behavior, and implement real-time marketing targeted to their customers. Specifically, banks will look to enhance their big data capabilities in the following areas:

- **Financial Reporting:** Banks can improve financial reporting and regulatory compliance through better quantification of risk.
- **Customer Analytics:** By leveraging customer data (i.e., customer's channel interaction data and demographic profile), banks can improve CRM as well as marketing and sales activities.
- **Predictive Analytics:** Banks can predict the needs of the customer by looking at past behavior and emerging lifestyle needs and thereby develop products better targeted to customer needs.
- **Fraud Analytics:** Helps to detect cases of fraud or look for patterns that help to predict fraud and thereby prevent fraudulent activities from taking place.
- **Pricing:** Big data analytics helps to improve the pricing of products and services based upon customer demand and customer satisfaction. Pricing of the product also improves, as it can be based upon a better quantification and understanding of the customer's credit default risk.

Trend 2: Build Capabilities in Customer Analytics

The implementation of data analytics requires changes in database and architecture design to facilitate data retrieval and analysis. In addition to technology considerations, changes are also required in the cultural, organizational, and procedural aspects with active participation of all key stakeholders.

Implications

Predictive analytics extracts information from data to predict trends and behavior patterns. It is applied in the following areas:

- **Customer Insight:** Analytical applications provide insight into the customer, for instance credit analysis, sentiment analysis and social media analysis. Analytics leverage data to understand customer lifestyle needs and customer behavior, so as to better target customers by offering them appropriate products through the right channel at the right time.
- **Customer Service:** Analytics is used to improve customer interactions by delivering personalized, practical interactions and services to customers. Virtual agents also incorporate analytics for predictive natural language to respond to customer queries. Analytics help to improve contact center performance, improve decision making, and problem-resolution methodologies.
- **Channel Effectiveness:** By leveraging customer-channel-interaction data, analytics can help to enhance and optimize the performance of various channels at interaction points to achieve a consistent multi-

channel experience and product-channel fit. Channel analytics is applied in loyalty management, analysis of sales/channel performance, and in achieving product-channel fit.

- **Risk management:** Predictive analytics is applied in fraud prevention and in predicting the likelihood of default.
- **Marketing:** Predictive analytics help to increase the efficiency and effectiveness of sales and marketing in financial services.
- **Sales:** By leveraging customer data, analytics can help generate sales opportunities, build leads and contacts, and enhance sales effectiveness.

Trend 3: Transform Digital Channels through Digital Convergence

Banks should have a multi-channel strategy that provides a roadmap for achieving digital channel convergence along with a platform for achieving seamless multichannel integration. In today's context of multi-channel banking, a typical sales journey may span across multiple channels. Email and mobile are the most common channels banks use for sending information about new product offerings to their customers, while the Internet channel is being commonly used by customers to initiate the purchase for new product offerings. But such cross-channel interaction often results in a broken customer experience and this may cause customer dissatisfaction with a bank.

Implications

There are certain technology considerations to address in order to enhance cross channel experience, as listed below:

- **Open Platform:** Open platform helps digital banking teams innovate faster and differentiate by more easily incorporating solutions by third-party providers or a bank's internal developers via application programming interfaces.
- **Cross-Channel Interaction:** Building a cross-channel experience allows customers to switch channels anytime during their interaction with the bank. For instance, when submitting an application via a mobile app, mobile users can transition to the online or online users can switch to their mobile device to use the app or make a phone call to talk to a bank representative.
- **Virtual Assistance/ Mobile Apps:** Virtual personal assistants help to bring the simplicity and reassurance of in-branch banking to the digital world by using conversational natural language understanding, reasoning, and an in-depth knowledge of banking.
- **Multi-Channel Platform:** This forward-thinking approach delivers an enhanced customer experience and no loss of a sale when the customer tries to switch channels. The key to a consistent cross-channel experience lies in building channel capability on a multi-channel platform.

Trend 4: Focus on Core Banking Transformation to Enhance Competitiveness

The process of core banking transformation starts with developing a target business and operating model and then building a case for change. It is then followed by package selection and selecting the IT vendor for core banking implementation. Core banking transformation strategy depends upon the size of the bank and the complexity of operations and business transformation.

Implications

Core banking transformation is a complex and expensive undertaking and the following considerations must be kept in mind:

- **Pay-Off Period and Return on Investment:** The pay-off period for core banking transformation usually spans from three to five years and the ROI depends on both direct and indirect benefits of core banking transformation. It is therefore important to assess both quantitative and qualitative benefits of transformation. The qualitative benefits include improved customer service, employee effectiveness and

efficiency gains, process improvements, enhanced business growth, and faster time-to-market. The quantitative costs include package licensing fees, implementation costs, and annual maintenance costs.

- **Managing Stakeholders:** Managing the transformation is equally challenging and involves detailed planning and managing expectations of all stakeholders. Strong leadership support and a capable change management team are critical for the success of core banking transformation in conjunction with effective communication and active management of all stakeholders with well-defined roles and responsibilities.
- **Managing Vendor and System Integrator:** Transformation of core banking systems takes years and therefore the long-term viability of the vendor assumes critical importance. Banks must assess vendor's capability to continuously enrich their core banking solutions to meet emerging banking requirements. They should also assess the past record of the system integrator in successfully implementing core banking transformation projects and the maturity of its tools and methodologies.

THE INDIAN BANKING SECTOR

The history of Indian banking can be divided into three main phases.

Phase I (1786- 1969) - Initial phase of banking in India when many small banks were set up
Phase II (1969- 1991) - Nationalization, regularization and growth
Phase III (1991 onwards) - Liberalization and its aftermath

With the reforms in Phase III the Indian banking sector, as it stands today, is mature in supply, product range and reach, with banks having clean, strong and transparent balance sheets. The major growth drivers are increase in retail credit demand, proliferation of ATMs and debit-cards, decreasing NPAs due to Securitization, improved macroeconomic conditions, diversification, interest rate spreads, and regulatory policy changes.

INNOVATIVE SERVICES IN INDIAN BANKING INDUSTRY

The Indian banking industry is not lagging behind, it has started providing services electronically over the internet. These services rendered over electronic media include:

Tele banking

Bank on phone, provides easy access for customers to have large businesses through telephones. Data are exchanged over the phone regarding any queries, to issue instructions on balance transfer, statement of account, cheque- book, stop payments, new schemes, interest rates etc. at any convenient time and place. Tele banking has gone a long way in providing maximum customer satisfaction within the limited infrastructure.

Automatic Teller Machines: (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 devise 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.

Credit cards

These plastic cards enable customers to spend whenever he/she wants within the prescribed limits and pay later. Debit card is a prepaid card with stored value, whereas credit card is postpaid with fixed limits. It is seen that spending is higher through debit cards than with credit cards.

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 is the service provider of EFT.

SPNS- (Shared payment network system)

SPNS installed by the IBA in the city of Mumbai, enables electronic banking service like cash transactions, extended hours of banking, utility payments, cheques, point of sale facilities by the SPNS can go to any ATM linked to SPNS.

Electronic Clearing Services [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. Electronic clearing of funds from one centre to another for handling bulk transactions like salary, interest, dividend, commission etc., has dispensed the cheques.

Point of Sale [POS] 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. Payment card at a retail location for electronic transfer of fund is called POS.

D-Mat Accounts

Transacting shares business through electronic media is called D-Mat. Investor opens an account called Demat Accounts. They get shares in electronic form. Then they send the actual shares to the investor. Investor pays for the opening, maintenance and collection of shares. This has reduced the paper work, bad deliveries, loss of shares and less transaction cost. Depository participant sometimes make illegal money at the cost of investors.

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. EDI can also be used to transmit financial information and payments in electronic form.

E-Cheques

Digital cheque used by the payer to the payee through internet is called e-cheques. Electronic versions of cheques are issued, received and processed. Most of the banks use e-cheques. A secure means of operation is provided for collecting, payments, and transferring cash flows through this method. The payer issues a digital cheque to the payee and the entire transactions are done through internet. Nowadays we are hearing about e-governance, e-mail, 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.

FUTURE OUTLOOK

The application of information technology will help in increasing the operating efficiency of the banking system. Its application will result in saving in cost. The quality of the information can be improved. The branches can provide improved customer services. Everyone today is convinced that the technology is going to hold the key to future of banking. The achievements in the banking today would not have make possible without IT revolution. Therefore, the key point is while changing to the current environment the banks has to understand properly the trigger for change and accordingly find out the suitable departure point for the change.

MAJOR CHALLENGES FACED BY BANKS

- Increased competition from domestic and international markets;
- Transaction costs of carrying non-performing assets and substandard assets in its books;
- Frequent changes in key policy rates and reserve requirements by the RBI;
- Maintaining sufficient liquidity.

CONCLUSION

In the days to come, banks are expected to play a very useful role in the economic development and the emerging market will provide ample business opportunities to harness. Human Resources Management is assuming to be of greater importance. As banking in India will become more and more knowledge supported, human capital will emerge as the finest assets of the banking system. Ultimately banking is people and not just figures. To conclude it all, the banking sector in India is progressing with the increased growth in customer base, due to the newly improved and innovative facilities offered by banks. FDI has provided a great innovation to the whole of banking sector industry as banks are now competing at a global level.

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