



## **TECHNOLOGY: COMPETITIVE EDGE FOR INDIAN BANKING SECTOR**

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### **Abstract**

*Banking in India has been through a long journey. Banking industry in India has also achieved a new height with the changing times. The use of technology has brought a revolution in the working style of the banks. Nevertheless, the fundamental aspects of banking i.e. trust and the confidence of the people on the institution remain the same. The majority of the banks are still successful in keeping with the confidence of the shareholders as well as other stakeholders. However, with the changing dynamics of banking business brings new kind of risk exposure. In this paper an attempt has been made to identify the general sentiments, challenges and opportunities for the Indian Banking Industry and the role of technological innovation which could be the change agent in the coming years. This paper is an attempt to provide a brief overview of the major technological developments in the field of banking*

**Key words:** *Information Technology, Challenges, Opportunities, customer retention.*

### **Introduction**

As the economy grows and becomes more sophisticated, the banking sector has to develop in a manner that supports and stimulates such growth. India is a country where there is three tier level of geographical area development. There are full fledged urban areas covering the metropolitan cities and other big cities. On the other hand, there are underdeveloped rural areas too. In between these two extremes, there are semi-urban areas also covering the small towns. Under such scenario, different marketing approach and strategy for all these areas will be required Technology has thrown new challenges in the banking sector and new issues have started cropping up which is going to pose certain problems in the very near future. The new entrants in the banking sector are skilled with the computer background. However, over a period of time they would acquire banking experience. Whereas, the middle and senior level people in banking have rich banking

experience but their computer literacy is at a very low level. It's a challenge. In an environment of large-scale use of technology, an effective security policy covering physical and other aspects has assumed greater importance. Commercial Banks in India need to initiate an appropriate security policy to ensure adequate and effective safety. RBI's Financial Sector Technology Vision Document focuses on four major areas, viz. I.T. for regulation and supervision, I.T. and Institute for Development and Research in Banking Technology, I.T. for Government related functions. The future computerization in banks should aim at strengthening the payment system, bring out new products and services and facilitate move towards fool-proof risk hedging techniques. The purpose of present study is to analyze such effects

### **TECHNOLOGICAL DEVELOPMENT IN BANKS.**

Developments in the field of information technology strongly supports the growth and inclusiveness of the banking sector by facilitating inclusive economic growth . IT improves the front end operations with back end operations and helps in bringing down the transaction costs for the customers. The important events in the field of IT in the banking sector in India are:

- Arrival of card-based payments- Debit/ Credit card in late 1980s and 90s.
- Introduction of Electronic Clearing Services (ECS) in late 1990s.
- Introduction of Electronic Fund Transfer (EFT) in early 2000s.
- Introduction of RTGS in March 2004.
- Introduction of National Electronic Fund Transfer (NEFT) as a replacement to Electronic Fund Transfer/Special Electronic Fund Transfer in 2005/2006.
- CTS in 2007.

### **EMERGING TRENDS IN BANKING TECHNOLOGY**

- Financial Inclusion
- Mobile Banking
- Electronic Payments
- CRM Initiatives
- IT Implementation and Management
- IT for Internal Effectiveness
- Managing IT Risk
- IT for business innovatioof innovation in banking on growth and development of India.

The important factors that establish the need for new approach in Indian Banks are detailed below :-

- Intense competition.
- Changes in Banking Sector.
- High Expectation of Customers.
- No Brand Loyalty.
- Improved Customer Retention.

### **Role of Information Technology in the development of Banking Sector**

The process of globalization, liberalization, privatization and the technological transformation in the world economy has transformed the Banking Industry and it has evolved manifolds.

- Technology will bring fundamental shift in the functioning of banks. It would not only help them bring improvements in their internal functioning but also enable them to provide better customer service. Technology will break all boundaries and encourage cross border banking business. Banks would have to undertake extensive Business Process Re- Engineering and tackle issues like a) how best to deliver products and services to customers b) designing an appropriate organizational model to fully capture the benefits of technology and business process changes brought about. c) how to exploit technology for deriving economies of scale and how to create cost efficiencies, and d) how to create a customer - centric operation model.
- Entry of ATMs has changed the profile of front offices in bank branches. Customers no longer need to visit branches for their day to day banking transactions like cash deposits, withdrawals, cheque collection, balance enquiry etc. E-banking and Internet banking have opened new avenues in “convenience banking”. Internet banking has also led to reduction in transaction costs for banks to about a tenth of branch banking.
- Technology solutions would make flow of information much faster, more accurate and enable quicker analysis of data received. This would make the decision making process faster and more efficient. For the Banks, this would also enable development of appraisal and monitoring tools which would make credit management much more effective. The result would be a definite reduction in transaction costs, the benefits of which would be shared between banks and customers.
- While application of technology would help banks reduce their operating cost In the long run, the initial investments would be sizeable. IT spent by banking and

financial services industry in USA is approximately 7% of the revenue as against around 1% by Indian Banks. With greater use of technology solutions, we expect IT spending of Indian banking system to go up significantly.

- One area where the banking system can reduce the investment costs in technology applications is by sharing of facilities. We are already seeing banks coming together to share ATM Networks. Similarly, in the coming years, we expect to see banks and FIs coming together to share facilities in the area of payment and settlement, back office processing, data warehousing, etc. While dealing with technology, banks will have to deal with attendant operational risks. This would be a critical area the Bank management will have to deal with in future.
- Payment and Settlement system is the backbone of any financial market place. The present Payment and Settlement systems such as Structured Financial Messaging System (SFMS), Centralised Funds Management System (CFMS), Centralised Funds Transfer System (CFTS) and Real Time Gross Settlement System (RTGS) will undergo further fine-tuning to meet international standards. Needless to add, necessary security checks and controls will have to be in place. In this regard, Institutions such as IDRBT will have a greater role to play

- **Future. Landscape of Indian Banking**

The Indian banking sector is faced with multiple and concurrent challenges such as increased competition, rising customer expectations, and diminishing customer loyalty. The banking industry is also 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-ATMs, internet banking, telebanking, outsourcing, centralized transaction processing, etc No doubt, the benefits of technology have brought a sea-change in the outlook of modern banking. Maintaining transparency and market disclosure of critical information such as risk profile, capital adequacy, and liquidity management have made banking institutions more accountable and responsive to the well-informed customers, investors, and public at large. In this complex and fast changing environment, the only sustainable competitive advantages 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. As different classes of customers have different expectations from the banks, we need to adopt a segmented approach to study the expectations of the consumers. For this purpose, consumers may be broadly categorized into corporate, institutional clients, high net worth individuals, and retail consumers. As already noted, banks have to profile their customers and segment them based on age/life cycle stage, income and occupation needs and preferences based on customer feedback and market research. They have to analyse the different financial needs occurring across various life cycle stages and accordingly, bundle out banking products to cater to their needs so as to sustain relationships over time. Banks need a focused marketing approach as warranted by the segment to which it caters to. Basically, the marketing plan of banks should focus on brand building and individual product marketing. This must be achieved through appropriate media planning

#### **Future Information Technology (IT) Advancements :**

The banking industry today faces the challenge of rapidly changing customer expectations against a backdrop of liberalisation, privatisation and globalisation, volatile economies and information technology (IT). Retail banking clients today demand more interactive access to their accounts, mobility of investments, better segmentation of products and services, all to be accessed and delivered at their convenience. Commercial Banks are diversifying into financial services sector, insurance sector and fee based earnings are gaining prominence over fund based earnings. The mushrooming of multi function, self-service electronic delivery channels are fast replacing the brick and mortar branches in urban / rural areas. Conventional methods of signature are being taken over by digital e-signature. These changes necessitate commercial banks to redefine the business model in a bid to optimize its resources and deliver world class customer service

#### **Conclusion:**

Use of technology in expanding banking is one of the key focus areas of banks. The banks in India are using Information Technology (IT) not only to improve their own internal processes but also to increase facilities and services to their customers. Efficient use of technology has facilitated accurate and timely management of the increased transaction volume of banks of that comes with larger customer base. By designing and offering simple, safe and secure technology banks reach at doorstep of customer with delight customer satisfaction.

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