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A STUDY ON INNOVATIONS AND CHALLENGES IN BANKING INDUSTRIES IN INDIA

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ABSTRACT

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 in the banks. Banking in India has already 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. Some of the significant innovations and challenges in banking industries in India will discuss in this paper.

Keywords: Innovative Banking, Challenges in Banking Industries, Global Challenges in Banking, Risk Management.

1. INTRODUCTION:

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. Banks also sharpened their focus on rural markets and introduced a variety of services geared to the special needs of their rural customers. Banking activities also transcended their traditional scope and new concepts like personal banking, retailing and bank assurance were introduced. The sector was also moving rapidly towards universal banking and electronic transactions, which were expected to change the way banking would be perceived in the future

2. INNOVATIONS IN BANKING IN INDIA

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. Some of the significant changes in the Indian banking sector are discussed below:

3. TECHNOLOGY FOR VALUE CREATION

The use of information technology in the Indian banking sector was a corollary of the liberalization process initiated in the country in the early 1990s.

4. RURAL INDIA

With a majority of the Indian population living in rural areas, rural banking forms a vital component of the Indian banking system. Besides, rural banking operations in India are rather different from urban operations, due to the strong disparity that exists between urban and rural life, and the needs of these two sections of people…

5. BANKING BEYOND BANKING

While traditionally, banking meant 'borrowing and lending', in the latter part of the 20th century, the word took on a different meaning altogether. Banks no longer restricted themselves to traditional banking activities, but explored newer avenues to increase business and capture new markets...

6. THE CHANGING FACE OF BANKING

Many analysts predict still more revolutionary changes in the banking sector in India. The chief of these are likely to be the concept of Universal Banks and the introduction of Smart Card technology. Although the Indian banking sector has made rapid progress particularly in the number of innovations introduced, some analysts are skeptical about the efficiency and practical use of many of these services

Financial Sector reforms initiated in the country as a part of the economic reforms since the year 1991 has brought about revolution in the structure of banking environment. While deregulation has opened up new opportunities for banks, liberalization has intensified competition in the banking industry by opening the market to new foreign and private sector banks. Declining interest rates and reduced lending margins have thrown up new challenges to banks, particularly public sector banks. Banks need to equip themselves sufficiently to operate in such a competitive environment.

In 1996, the World Bank made a commitment to become a global knowledge bank. The Bank’s stated intention was to develop a world-class knowledge management system and to improve and expand the sharing of development knowledge with clients and partners. The objectives of this commitment were to improve the quality of Bank operations and enhance the capacity of clients to achieve development results.

7. GLOBAL CHALLENGES IN BANKING

1. Enhancement of customer service.

2. Innovations in technology.

3. Improvement of risk management systems.

4. Diversifying products.

Globalization challenges are not restricted only to global banks. Banks in India also need to face them. Overcoming these challenges makes them more competitive and will also equip them to launch themselves as global players.

7. COMPETITION

Globalization has brought competition from international banks. In order to compete with new entrants effectively commercial banks need to posses strong balance sheets which indicate the real strength of the bank. The entry of new private sector banks and foreign banks equipped with latest technology and technology -driven product lines have really sensitized the ordinary customers of the banking services to the need for quality in terms of innovative products as well as delivery process These banks are aggressively targeting the retail business and consequently grabbing the market share of public sector banks.

8. ELECTRONIC BANKING

In the future, banking will be driven more of technology and telecommunication systems. Aided by improved telecommunication and technology, Public sector banks have made rapid strides in product innovation and delivery, thereby improving quality of customer service. Technological changes have brought about paradigm shift in the process today's banking may be redefined as 'Triple A.' banking-anytime anywhere, anyhow banking .Internet banking will enable three profit centers', namely treasury, corporate banking and retail banking, to launch new products and provide quality service to a wider customer base.

9. TECHNOLOGY

With the help of innovative information technology, banks are able to reduce the transaction cost and handle a large number of transactions in time. Now banks can provide customized products easily and customers could access many services through internet by sitting at home. To provide better services to their customers, banks are embracing Customer Relationship Management [CRM] facilitated by the availability of conductive technology. Innovation is technology is also helping banks to cross sell the products of insurance and securities firms, which are swelling their fee-based income in the total income.

Innovative technology not only brings benefits, but risks too. Major impediments and risks associated with the implementation of innovative technology are;

- Cost associated with adoption of new technology might not bring cash flows required to cover that cost.

- Increased capacity due to a new technology could result excess capacity in the financial institution.
- Another problem banks face with implementation of latest technology is integration of existing system with the new one.
- Banks could face cost overrun or cost control problems.
- Innovative technology has brought new risks like daylight overdraft risk

10. INNOVATIONS IN HOUSING LOANS

Housing loans are one of the products that banks are concentrating more. The booming housing loans market positively affects many industries. So to provide impetus to any economy, booming housing market is vital. Banks benefit from higher security, low risk weights and reasonable margins.

11. RISK MANAGEMENT

Globalization and liberalization are forcing banks to take more risk to compete effectively in the global market place. One of the important risks is compliance risk. It is the risk to comply with laws, rules and standards such as market conduct, treating customers fairly, etc. To mitigate this risk, banks should develop compliance culture in their organization. It is not only the duty of compliance specialists, but banks can also manage compliance risk by putting in place compliance functions that are in consistence with compliance principles.

Liquidity risk arises when banks unable to meet their obligations when they become due. To manage the mismatch of assets and liabilities, banks should analyze the accounting data both on static as well as dynamic basis. Deposits of higher value are the most important item to be monitored regularly, as sudden withdrawal of these deposits might cause liquidity problem for the bank. Also incentives to these deposits in the time of falling interest rates could create strain on liquidity.

12. INNOVATIONS IN CUSTOMER SERVICES

Satisfied customer is the best guarantee for stability of the organization in the long-run. Banks can satisfy their customers only by providing customized, cost effective and timely services .With the help of technology banks are able to provide plethora of products and services to their customers which suit them. Major services provided by the Indian banks that are of international standards are Any time banking, Anywhere banking, Global ATM and Credit Cards, Internet banking facility etc.

13. CONCLUSION

Given the new environment, banks can't remain unaffected by the changes round and challenges before them. Therefore banks need to restructure themselves. The following practices need to be adopted on urgent basis;

- Greater professionalism.
- Greater emphasis on diversification and sources non interest income.
- Consultancy services.
- Equipping them to operate in the deregulated environment.
- Necessary changes in the legal stipulations.
- Cost management.
- Bench marking of service standards to improve productivity and Proficiency.
- A self- regulatory organization to monitor the activities of banking

With the increasing levels of Globalizations, Liberalizations, Privatizations and new reforms of the banking sector, competition will intensify further. Therefore, the banks who understand the market dynamics, perceive threats, anticipate volatility, show high degree of professionalism and dynamism in their functioning and respond promptly to the market needs would survive and prosper.