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A STUDY ON RECENT TRENDS IN INDIAN BANKING

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ABSTRACT:

The Banking industry and financial institutions are vital sectors of any economy. Development of these two sections of the economy can impact the growth of the country in an incredible way. In the era of "Digital India", the banking and financial services in India have undergone a massive evolution and the phenomenon continues. The change can be attributed to various components like new regulatory policies and customer expectations.

KEYWORDS:

Banking industry and financial institutions.

INTRODUCTION:

Today, we are having a genuinely very much created financial framework with various classes of banks – open part banks, outside banks, private division banks – both old and new age, provincial rustic banks and co-employable keeps money with the Reserve Bank of India as the wellspring Head of the framework. In the financial field, there has been a remarkable development and broadening of banking industry has been stupendous to the point that it has no parallel in the chronicles of banking anyplace on the planet.

During the last 41 years since 1969, tremendous changes have taken place in the banking industry. The banks have shed their traditional functions and

have been innovating, improving and coming out with new types of the services to cater to the emerging needs of their customers.

Massive branch expansion in the rural and underdeveloped areas, mobilization of savings and diversification of credit facilities to the either to neglected areas like small scale industrial sector, agricultural and other preferred areas like export sector etc. have resulted in the widening and deepening of the financial infrastructure and transferred the fundamental character of class banking into mass banking.

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, leasing, mutual funds etc. A few banks have already set up subsidiaries for merchant banking, leasing

and mutual funds and many more are in the process of doing so. Some banks have commenced factoring business.

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 and policy changes (e.g. amendments to the Banking Regulation Act).

Certain trends like growing competition, product innovation and branding, focus on strengthening risk management systems, emphasis on technology have emerged in the recent past. In addition, the impact of the Basel II norms is going to be expensive for Indian banks, with the need for additional capital requirement and costly database creation and maintenance processes. Larger banks would have a relative advantage with the incorporation of the norms.

OBJECTIVES OF THE STUDY

- To study about the Indian banking Structure
- To understand the role of Banks in development of Indian economy
- To study the Recent Trends in Banking Sector

METHODOLOGY

The paper is conceptual in nature. Data collection was achieved by online websites & the date is filtered to improve the quality of paper. The interpretations are made by the authors with the help of guide.

PERSPECTIVES ON INDIAN BANKING

In 2009-10 there was a slowdown in the balance sheet growth of scheduled commercial banks (SCBs) with some slippages in their asset quality and profitability. Bank credit posted a lower growth of 16.6 per cent in 2009-10 on a year-on-year basis but showed signs of recovery from October 2009 with the beginning of economic turnaround. Gross nonperforming assets (NPAs) as a ratio to gross advances for SCBs, as a whole, increased from 2.25 per cent in 2008 - 09 to 2.39 percent in 2009 - 10. Notwithstanding some knock-on effects of the global financial crisis, Indian banks withstood the shock and remained stable and sound in the post-crisis period. Indian banks now compare favorably with banks in the region on metrics such as growth, profitability and loan delinquency ratios. In general, banks have had a track record of innovation, growth and value creation. However this process of banking development needs to be taken forward to serve the larger need of financial inclusion through expansion of banking services, given their low penetration as compared to other markets.

During 2010-11, banks were able to improve their profitability and asset quality. Stress test showed that banking sector remained reasonably resilient to liquidity and interest rate shocks. Yet, there were emerging concerns about banking sector stability related to disproportionate growth in credit to sectors such as real estate, infrastructure, NBFCs and retail segment, persistent asset-liability mismatches, higher provisioning requirement and reliance on short-term borrowings to fund asset growth

USER FRIENDLY POLICY

Banking sector policy during 2010-11 remained consistent with the broader objectives of macroeconomic policy of sustaining economic growth and controlling inflation. The Reserve Bank introduced important policy measures of deregulation of savings bank deposit rate and introduction of Credit Default Swap (CDS) for corporate bonds. It initiated the policy discussions with regard to providing new bank licenses, designing the road-ahead for the presence of foreign banks and holding company structure for banks. The process of migration to the advanced approaches under the Basel II regulatory framework continued during 2010-11, while also facilitating the movement towards the Basel III framework. Financial Inclusion continued to occupy centre stage in banking sector policy with the rolling out of Board-Approved Financial Inclusion Plans by banks during 2010-11 for a time horizon of next three years.

RECENT TRENDS IN BANKING

1) Digitization:

With the rapid growth of digital technology, it became imperative for banking and financial services in India to keep up with the changes and innovate digital solutions for the tech-savvy customers. Besides the financial institutions, insurance, healthcare, retail, trade, and commerce are some of the major industries that are experiencing the enormous digital shift. To stay competitive, it is necessary for the banking and financial industry to take the leap on the digital bandwagon.

In India, it all began not earlier than the 1980s when the banking sector introduced the use of information technology to perform basic functions like customer service, book-keeping, and auditing. Soon, Core Banking Solutions were adopted to enhance customer experience. However, the transformation began in the 1990s during the time of liberalization, when the Indian economy exposed itself to the global market. The banking sector opened itself for private and international banks which is the prime reason for technological changes in the banking sector. Today, banks and financial institutions have benefitted in many ways by adopting newer technologies. The shift from conventional to convenience banking is incredible.

Modern trends in banking system make it easier, simpler, paperless, signatureless and branchless with various features like IMPS (Immediate Payment Service), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), Online Banking, and Telebanking. Digitization has created the comfort of "anywhere and anytime banking." It has resulted in the reduced cost of various banking procedures, improved revenue generation, and reduced human error. Along with increased customer satisfaction, it has enabled the customers creating personalized solutions for their investment plans and improve the overall banking experience.

2. Enhanced Mobile Banking:

Mobile banking is one of the most dominant current trends in banking systems. As per the definition, it is the use of a smartphone to perform various banking procedures like checking account balance, fund transfer, and bill payments, without the need of visiting the branch. This trend has taken over the traditional banking systems. In the coming years, mobile banking is expected to become even more efficient and effortless to keep up with the customer demands. Mobile banking future trends hint at the acquisition of IoT and Voice-Enabled Payment Services to become the reality of tomorrow. These voice-enabled services can be found in smart televisions, smart cars, smart homes, and smart everything. Top industry leaders are collaborating to adopt IoT-connected networks to create mobile banking technologies that require users' voice to operate.

3. UPI (Unified Payments Interface):

UPI or Unified Payments Interface has changed the way payments are made. It is a real-time payment system that enables instant inter-bank transactions with the use of a mobile platform. In India, this payment system is considered the future of retail banking. It is one of the fastest and most secure payment gateways that is developed by National Payments Corporation of India and regulated by the Reserve Bank of India. The year 2016 saw the launch of this revolutionary transactions system. This system makes funds transfer available 24 hours, 365 days unlike other internet banking systems. There are approximately 39 apps and more than 50 banks supporting the transaction system. In the post-demonetization India, this system played a significant role. In the future, with the help of UPI, banking is expected to become more "open."

4. Block Chain:

Block chain is the new kid on the block and the latest buzzword. The technology that works on the principles of computer science, data structures and cryptography and is the core component of crypto currency is said to be the future of banking and financial services globally. Block chain uses technology to create blocks to process, verify and record transactions, without the ability to modify it.

NITI Aayog is creating India Chain, India's largest block chain network, which is expected to revolutionize several industries, reduce the chances of fraud, enhance transparency, speed up the transaction process, lower human intervention and create an unhackable database. Several aspects of banking and financial services like payments, clearance and settlement systems, stock exchanges and share markets, trade finance, and lending are predicted to be impacted. With its strenuous design, block chain technology is a force to be reckoned with.

5. Artificial Intelligence Robots:

Several private and nationalized banks in India have started to adopt chatbots or Artificial intelligence robots for assistance in customer support services. For now, the use of this technology is at a nascent stage and evolution of these chatbots is not too far away. Usage of chatbots is among the many emerging trends in the Indian banking sector that is expected to grow.

More chatbots with the higher level of intelligence are forecasted to be adopted by the banks and financial institutions for improved customer interaction personalized solutions. The technology will alleviate the chances of human error and create accurate solutions for the customers. Also, it can recognize fraudulent behavior, collate surveys and feedback and assist in financial decisions.

6. The rise of Fintech Companies:

Previously, banks considered Fintech companies a disrupting force. However, with the changing trends in the financial services sector in India, fintech companies have become an important part of the sector. The industry has emerged as a significant part of the ecosystem. With the use of financial technology, these companies aim to surpass the traditional methods of finance. In the past few decades, massive investment has been made in these companies and it has emerged into a multi-billion-dollar industry globally.



Fintech companies and fintech apps have changed the way financial solutions are provided to the customers. Besides easy access to financial services, fintech companies have led to a massive improvement in services, customer experience, and reduced the price paid. In India, the dynamic transformation has been brought upon by several important elements like fintech startups, established financial institutions, initiatives like "Start-Up India" by Government of India, incubators, investors, and accelerators. According to a report by National Association of Software and Services Companies (NASSCOM), the fintech services market is expected to grow by 1.7 times into an \$8 billion market by 2020.

7. Digital-Only Banks:

It is a recent trend in the Indian financial system and cannot be ignored. With the entire banking and financial services industry jumping to digital channels, digital-only banks have emerged to create paperless and branchless banking systems. This is a new breed of banking institutions that are overtaking the traditional models rapidly. These banks provide banking facilities only through various IT platforms that can be accessed on mobile, computers, and tablets. It provides most of the basic services in the most simplified manner and gives access to real-time data. The growing popularity of these banks is said to be a real threat to traditional banks.

ICICI Pockets is India's first digital-only bank. These banks are attractive to the customers because of their cost-effective operating models. At the same time, though virtually, they provide high-speed banking services at very low transaction fees. In today's fast lane life, these banks suit the customer needs because they alleviate the need of visiting the bank and standing in a queue.

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IMPLICATIONS

The banks were quickly responded to the changes in the industry; especially the new generation banks. The continuance of the trend has re-defined and re-engineered the banking operations as whole with more customization through leveraging technology. As technology makes banking convenient, customers can access banking services and do banking transactions any time and from any ware. The importance of physical branches is going down.

CHALLENGES FACED BY BANKS

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. Another major anxiety before the banking industry is the high transaction cost of carrying Non Performing Assets in their books. The resolution of the NPA problem requires greater accountability on the part of the corporate, greater disclosure in the case of defaults, an efficient credit information sharing system and an appropriate legal framework pertaining to the banking system so that court procedures can be streamlined and actual recoveries made within an acceptable time frame. The banking industry cannot afford to sustain itself with such high levels of NPA's thus, "lend, but lent for a purpose and with a purpose ought to be the slogan for salvation."

The Indian banks are subject to tremendous pressures to perform as otherwise their very survival would be at stake. Information technology (IT) plays an important role in the banking sector as it would not only ensure smooth passage of interrelated transactions over the electric medium but will also facilitate complex financial product innovation and product development. The application of IT and e-banking is becoming the order of the day with the banking system heading towards virtual banking.

As an extreme case of e-banking World Wide Banking (WWB) on the pattern of World Wide Web (WWW) can be visualized. That means all banks would be interlinked and individual bank identity, as far as the customer is concerned, does not exist. There is no need to have large number of physical bank branches, extension counters. There is no need of person-to-person physical interaction or dealings. Customers would be able to do all their banking operations sitting in their offices or homes and operating through internet. This would be the case of banking reaching the customers.

Banking landscape is changing very fast. Many new players with different muscle powers will enter the market. 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 will be more transparency and disclosures. 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.

India's banking sector has made rapid strides in reforming and aligning itself to the new competitive business environment. Indian banking industry is the midst of an IT revolution. Technological infrastructure has become an indispensable part of the reforms process in the banking system, with the gradual development of sophisticated instruments and innovations in market practices.

IT IN BANKING

Indian banking industry, today is in the midst of an IT revolution. A combination of regulatory and competitive reasons has led to increasing importance of total banking automation in the Indian Banking Industry. Information Technology has basically been used under two different avenues in Banking. One is Communication and Connectivity and other is Business Process Reengineering. Information technology enables sophisticated product development, better market infrastructure, implementation of reliable techniques for control of risks and helps the financial intermediaries to reach geographically distant and diversified markets.

The bank which used the right technology to supply timely information will see productivity increase and thereby gain a competitive edge. To compete in an economy which is opening up, it is imperative for the Indian Banks to observe the latest technology and modify it to suit their environment. Not only banks need greatly enhanced use of technology to the customer friendly, efficient and competitive existing services and business, they also need technology for providing newer products and newer forms of services in an increasingly dynamic and globalize environment. Information 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.

- ❖ It is winding up progressively basic for banks to survey and find out the advantages of innovation usage. The products of innovation will positively taste much better when the profits can be estimated in outright terms however it needs precautionary measures and the security nets.
- ❖ It has not been a smooth cruising for banks quick to bounce onto the IT temporary fad. There have been obstructions in the way like the unyieldingness once appeared in terms of professional career associations who felt that IT could end up being a risk to verify business. Further, the extension of banks into remote niches and corners of the nation, where coordinations keeps on being a debilitation, demonstrated to be another faltering stock. Another test the banks have needed to confront concerns the powerlessness of banks to hold the prepared and capable staff, particularly those with a decent information of IT.
- ❖ The expanding utilization of innovation in banks has additionally raised 'security' concerns. To stay away from any entanglements or accidents on this record, banks should have set up a well-reported security strategy including system security and inward security. The death of the Information Technology Act has come as a help to the financial area, and banks should now guarantee to stand

carefully by its agreements. An exertion ought to likewise be made to cover e-business in the nation's shopper laws.

- ❖ Some are putting resources into it to drive the business development, while others are having no alternative however to contribute, to remain in business. The decision of right channel, support of IT venture on ROI, e-administration, client relationship the executives, security concerns, mechanical out of date quality, mergers and acquisitions, entrance of IT in country territories, and re-appropriating of IT tasks are the real difficulties and issues in its utilization in banking activities. The fundamental test, be that as it may, stays to propel the clients to progressively utilize IT while executing with banks. For little banks, overwhelming venture necessity is the compacting need notwithstanding their capital prerequisites. The coming years will see significantly greater interest in banking innovation, yet procuring ROI will call for increasingly key reasoning.
- ❖ The banks may need to reorient their assets as redesigned branch systems, decreased labor, emotional decrease in foundation cost, sharpening the abilities of the staff, and inventive methods for pulling in capable administrative pool. The Government of India and the Reserve Bank of India (RBI) on their part would fortify the current standards regarding overseeing and coordinating the working of these banks. Banks needs to fortify their review work. They would be assessed dependent on their presentation in the commercial center. It is in this setting we have welcomed the CEOs of Indian banks to react to the issues referenced before

FUTURE OUTLOOK

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.

Although, the adoption of technology in banks continues at a rapid pace, the concentration is perceptibly more in the metros and urban areas. The benefit of Information Technology is yet to percolate sufficiently to the common man living in his rural hamlet. More and more programs and software in regional languages could be introduced to attract more and more people from the rural segments also.

Standards based messaging systems should be increasingly deployed in order to address cross platform transactions. The surplus manpower generated by the use of IT should be used for marketing new schemes and banks should form a 'brains trust' comprising domain experts and technology specialists.

CONCLUSION

Indian banking system will further grow in size and complexity while acting as an important agent of economic growth and intermingling different segments of the financial sector. It automatically follows that the future of Indian banking depends not only in internal dynamics unleashed by ongoing returns but also on global trends in the financial sectors. Indian Banking Industry has shown considerable resilience during the return period. The second generation returns will play a crucial role in further strengthening the system. The financial today is re-characterized and re-designed with the utilization of Information Technology and it is certain that the eventual fate of banking will offer progressively refined administrations to the clients with the consistent item and procedure advancements. Along these lines, there is a change in perspective from the merchant's market to purchaser's market in the business lastly it influenced at the brokers level to change their methodology from "ordinary banking to comfort banking" and "mass banking to class banking". The move has likewise expanded the level of availability of a typical man to bank for his assortment of necessities and prerequisites. Reception of stringent prudential standards and higher capital benchmarks, better hazard the board frameworks, selection of universally acknowledged bookkeeping rehearses and expanded divulgences and straightforwardness will guarantee the Indian Banking industry keeps pace with other created banking frameworks.

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