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# **BANKING REVOLUTION IN INDIA: THE TRIUMPH OF PRECEDING TWO DECADES**

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## **Abstract**

Where In India, just about a decade back banking sector was curbed to the nationalized and co-operative banks, it has made enormous pace in creating the foundation of modern banking. Reserve Bank of India has been the spearhead; and the country has now walked on development process to create a revolutionized banking system, rivaling the most advanced in the world. This all has paved the way to tremendous growth in overall productivity as a result of technology upgrade. Now Banks are an easy and pleasurable experience and are set out to be spectacular. The text presents you the features of last two decades in the backdrop of Indian banking by exploring the bag it brought to the country, how the technology became the backbone and how this all could happen with a paradigm shift depicted in its testimonies and it also presents a predictive view in the light of current apparent developments.

## **Backdrop: Brick and Mortar**

In old days, if you wanted to open a bank account, you always had to do it in person. Business was always transacted face-to-face, and even when automated teller machines became usual, you had to depend on finding someone to answer your questions or help you with the problems. The banking products and financial services offered were limited to the depositing cash and withdrawing cash from bank. Banking in India was mostly manual until the 1970s and even in the 1980s. Around the mid-1980s, when banks first started computerization, the pace of automation was very slow, largely due to infrastructural issues, opposition from trade unions and a lack of interest from the top management. The most of the banks were under the control of government. Bank robberies were daggers hanging over the head, time limitation was the factors limiting the transactions and velocity of growth. The involvement of more manual efforts and less machine based work was cumbersome. The entire functioning was based on brick and mortar model resulting into low pace and clutter.

## **Banking Revolution: Brick and Click**

Like the overall economy, the Indian banking sector had severe structural problems by the end of the 1980s. In 1990, it was the rise of the Private Banks that brought in change and introduced competition and variety in the banking services.

The Reserve Bank of India made it compulsory for all banks to adopt the computerization in all banking activities. RBI has taken this initiative to achieve its goal of financial inclusion and bringing down transaction costs. This has been such a significant decision taken by RBI that incorporated Internet Banking and all the subsequent technological changes in banking sector and resulted in the rapid growth

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of banks in India. Brick and Mortar interface has no more been a compulsion; it moved to brick and click. This has changed the banking industry as it has made the major effects on banking relationships.

Internet has leveled the playing field and made the open access affordable to customers in the global marketplace. It came out to be a cost effective solution to access to one's own account. The six primary deliveries of Internet banking includes-improve customer access, facilitate the offering of more services, increase customer loyalty, attract new customers and provide services offered by competitors. You can easily pay your dues and can manage your bank account very easily. It is quite simple to see your mini account statement or the transaction record for the whole month. As people discover the ease and convenience in it, so they rely heavily on this service. It has made the transactions faster and more secure. Banks are very conscious about the quality of this service. RBI has a special monitoring and controlling cell of this service, which assures the quality of these services to the customers. Internet banking is helping the banking sector of India to increase the growth. The stretch of time became the era of brick and click. You have to deal very little in bricks and then the rest in clicks.

### **What the Decade Bagged For Masses: The Technology Perspective**

With the introduction of a handful of new private sector banks such as ICICI Bank and HDFC Bank, the entire banking scenario has changed as the pre-condition of receiving bank licenses was a mandatory deployment of technology, which they used to their advantage. Private sector banks aggressively adopted technology to compete against well-entrenched players that had vast branch networks. Although most of the new banks started with a decentralized branch automation model, they were among the first in the market to move to a centralized core banking solution in the early 2000s. All along, these banks offered anytime, anywhere banking through electronic delivery channels, rapidly introduced new products and, most importantly, focused on customer convenience.

Technology has brought the fundamental shift in the functioning of banks. It has not only helped them bring improvements in their internal functioning but also enable them to provide better customer services. Technology broke all boundaries and encouraged cross border banking business. Banks undertook extensive Business Process Re-Engineering and tackled many an issues. They worked assiduously for delivering products and services to customers, designing an appropriate organizational model to fully capture the benefits of technology and business process changes brought about, exploiting technology for deriving economies of scale and creating cost efficiencies and creating customer - centric operation model.

Technology solutions made the flow of information much faster, more accurate and enabled quicker analysis of data received. This has made the decision making process faster and more efficient. For the Banks, this enabled appraisal and monitoring tools which would make credit management much more effective. The results are reduction in transaction costs, the benefits of which would be shared between banks and customers both.

### **The Paradigm Shift**

The technology has brought three major paradigm shifts to the banking industry:



Private Sector Revolution, Core Banking Solutions, and Funds Settlement Systems [such as Real-Time Gross Settlement (RTGS) and National Electronic Funds Transfer (NEFT)].

As the pre-condition for the entry of Private Banks was deployment of technology, only then they could receive bank licenses. They made the technology their competitive advantage. Private sector banks aggressively adopted technology to compete against well-established players that had vast branch networks. Although most of the new banks started with a decentralized branch automation model, but the ICICI and HDFC Banks were amongst the first to move to a centralized core banking solution in the early 2000s.

Another paradigm shift is Core Banking. Bank customers may access their funds and other simple transactions from any of the member branch offices. An overall service-oriented-architecture (SOA) helps banks reduce the risk that can result from manual data entry and out-of-date information, increases management information and review, and avoids the potential disruption to business caused by replacing entire systems.

The Reserve Bank of India maintains the payment network. The breakthrough in payments has emerged as Real-Time Gross Settlement (RTGS) and National Electronic Funds Transfer (NEFT). This permits the fastest possible money transfer system through the banking channel, moreover, settlement in real time. The transactions are settled as soon as they are processed. Money transfer takes place in the books of the Reserve Bank of India, the payment is taken as final and irrevocable.

These paradigm shifts in respect to banking operations turned the outlook of customers towards the industry from 'knotty and thorny' to 'simple and fit'.

### **The Testimonies**

Automated teller machines, electronic transactions, mobile banking, current account, SMS banking, real time foreign transactions are a few testimonies of the Paradigm shift in banking industry.

### **The Paradox**

Traditional banking still finds favour with most Indians. There are 73,000 villages in the country which are not served by any bank so far. Most customers prefer visiting a branch and are yet to feel at ease with the emerging trend of mobile or internet banking. For Banks, transaction costs at the branch is thrice more than using an ATM, still banks are struggling with customer acceptance. Due to poor quality of life, there is lack of needs which doesn't fascinate them for better use. There are around 65,000 branches and nearly 44,000 commercial banks ATMs in the country tight with transaction rush.

To capture the enormous opportunity of new users for alternate channels, banks needs to ensure an integrated and consistent service experience across the multiple channels which should be free of teething troubles and more user friendly.

### **The Upcoming Advancements: Clicks vs. Clicks**

The next level is composing the vista "More for more clicks in fewer clicks". The first click is number of users and the second click is about complicated hassles of



transactions. This has to be optimized in upcoming brew of applications and services.

The likelihood is favoring microfinance. On February 10, 2011, Ministry of Finance, Government of India and the Indian Banks Association (IBA) started a campaign 'Hamara Khaata Hamara Swabhimaan' (Our Account our Pride) to bring banking within the reach of the masses of the Indian population. Under the program, it is proposed to open five crore new rural bank accounts. Opening accounts for so many illiterate and semi literate people of rural India is apparently going to test the mettle and perseverance of the banking officials.

The banking will be taken door to door through business correspondents who will be called 'Bank Saathi' in Hindi. Taking into account of the illiterate nature of the rural people, the procedures for opening the bank accounts will be simplified. Facilities of easy access to credit and saving products will be provided under this scheme. There will be a speedy transfer of funds and payment of government subsidies and other developmental funds allotted by the government from time to time for the rural sector. National card scheme and Domestic card are also on the board.

With catalysis of technology, we expect to see great changes in the banking scene in the coming years as consolidation of players through mergers and acquisitions, Globalization of operations, Development of new technologies and Universalisation of banking. It will cause the emergence of an integrated and diversified financial system and will also gain momentum from non-banking financial institutions.

## **Conclusion**

The financial sector reforms have brought about significant improvements in the financial strength and the competitiveness of the Indian banking system over the globe. The practices are keeping pace with global standards and are upgrading to the level of resilience. The efforts on the part of the Reserve Bank of India to adopt and refine regulatory and supervisory standards on a par with international best practices, competition from new players, gradual disinvestment of government equity in state banks coupled with functional autonomy, adoption of modern technology, etc are expected to serve as the major forces for change. In the emerging scenario, the supervisors and the banks need to put in place sound risk management practices to ensure systemic stability.

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