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Performance of Modern Banking in Comparison with Traditional System

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Abstract - The digitalization, automation, and greater use of technology that define the contemporary banking system have greatly enhanced the effectiveness and accessibility of financial transactions. Customers are more satisfied since they may use this system to access banking services and goods whenever and wherever they choose. Charges for banking services have decreased as a consequence of contemporary banking systems' success in cutting down on banks' overhead. The development of the current banking system has also allowed for the development of novel goods and services that are designed to fulfill the individual requirements of their clientele. Financial services that can be accessed via a mobile device, such as mobile banking, internet banking, digital wallets, and other safe payment methods, are included here.

Keywords - Performance, Modern Banking, Traditional System

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1. INTRODUCTION

In contrast to severely regulated banking practices in the past, the modern banking industry has been largely emancipated from such constraints as a result of new laws enacted in recent decades. The installation of more restrictive systems to monitor and manage the following areas was made possible by the implementation of tight limits in traditional banking structures and processes. Limitations on the selling price, the area of activities, and the kind of goods or service provided; Deposit Insurance; and Capital Control.[1]

Officials eventually agreed that it would be prudent to de-regulate banks to a certain extent to accelerate vital activities for the benefit of bankers, investors, and ordinary depositors. Deregulation and the utilization of cutting-edge information technology have developed as distinctive aspects of today's banking business. These two characteristics of modern banking enabled the development of efficient banking operations while simultaneously creating enormous uncertainty, as seen by the 2008 financial crisis.

Since an online bank has no physical location and all transactions must be conducted digitally, prices are often lower and interest rates are generally higher. Traditional banks, on the other hand, provide consumers with physical facilities, a greater range of banking services, and the opportunity to engage with a banker in person.[2]

Banking online, sometimes known as "e-banking," is a popular notion these days. Almost every bank in every city now provides e-banking services. Before now, internet banking has not been limited to a single area. E-banking may be useful, but only if people are aware of it and understand how it works. Many people in Pune's metropolitan area are acquainted with and utilize e-banking services, while others are aware but prefer to forgo the convenience that such services provide. Students often possess a theoretical grasp of e-banking and its many features. Yet, all students use their newly acquired information, making it critical to research to discover whether or not students utilize e-banking. Investigating graduate students' knowledge of internet banking.

1.1 Traditional Banking

Five aspects of conventional banks were heavily controlled, including their ability to expand geographically and the required level of standby reserves. One and only one thing motivated policymakers to adopt several limitations, and that was to guarantee the long-term health of the country's financial institutions. To provide one example, in the past, cash reserves were kept in conventional banks and were off-limits to bank employees. The regulation was put in place by central banks with the hopes of achieving two very important objectives. The first function of the cash reserves was to limit the amount of credit available to the national economy. Second, these reserves were set aside so that financial institutions would always have access to cash to cover immediate and unforeseen expenses.[3]

It was hoped that by strictly regulating banks, the rivalry between financial institutions would be reduced. To ensure the financial institutions' success, regulators were laying the groundwork for it. Yet, a steady expansion that was also conservative was assured by the diligent implementation of the aforementioned rules and regulations. In a Western culture where capitalism and the pursuit of ever-greater profits are the norms, the idea of slow, steady expansion might be hard to grasp. So, it was not unexpected that bankers, national leaders, and other interested parties would decide that bank deregulation was necessary to boost economic development.

1.2 Modern Banking

Deregulation was originally enacted to enhance financial services and stimulate the economy. For instance, banks had difficulties in the context of global growth from the 1930s until the late 1970s. Deregulation advocates were able to show that restrictions like this made it so certain people couldn't use the services of a local bank.[4]

They also claimed that the economic effects of limiting interest rates and limiting banks' ability to compete with one another were long-lasting. They were right. Depositors seeking the finest banks and company owners searching for the greatest financial goods on the market benefited greatly from deregulation, which in turn helped the national economy.

As a result of deregulatory efforts, new avenues for expansion were made possible. Yet, this boundless opportunity for expansion also encouraged the development and implementation of more risky banking practices. The enormous pressure to perform at the top levels and the unrestrained means to earn a significant quantity of money contributed greatly to the dishonest and ill-advised behaviors that eventually precipitated the financial crisis of 2008.

2. MODERN BANKING SERVICES IN INDIA

Banking in India has enormous growth potential, and the country is often regarded as one of the world's leading economies. India's banking industry is an integral part of the country's economy, helping to stimulate growth in commercial activity throughout the country's urban and rural regions. As a continuation of the liberalization and financial sector reforms, India's banking industry has been undergoing its own set of changes. The changes made to the financial sector prioritized the banking sector because of its vital role in the economy. The goal of the changes was to increase competition, flexibility, efficiency, and output in India's banking sector. Indian banks are undergoing a transition towards modern banking as a result of reforms that began in the early 1990s and have continued to the present day. In FY2013, banking assets in India amounted to $1.8 trillion, and by FY2025 they are projected to reach $28.5 trillion.[5]

Banking has always relied on human labor, but with the advent of modernization, more and more of the industry's services have shifted to rely on automated processes and digital infrastructure. All these innovations have helped banks improve their efficiency and save costs, much to the satisfaction of their consumers.

The banking business in India, and the financial services sector more generally, attribute much of the recent upheaval to developments in information technology. The origins of a bank's income might vary greatly from one to the next. Historically, several banks in India have been among the country's first to actively use digital tools. Since 1980, there has been a tremendous shift in Indian banking, and the wave began concurrently with this shift. Since the advent of new technologies, banks have increased the speed of transactions, expanded their reach, and improved their customers' access to information on a massive scale. As banking technology evolves, customers may make use of a wider range of services at their local bank locations. India's central bank, the Reserve Bank, is promoting cutting-edge banking options for the country. It started the whole digital and IT revolution, and it was generally embraced. In 2003, it was predicted that 90 lakh people used a contemporary bank in the nation; by 2020, that number is projected to have increased by more than 20 times. The Reserve Bank of India has played a significant influence in the evolution of India's banking system from core banking to instant banking, a trend that is expected to continue.[6]

2.1 Features of Modern Banking Services

It has the following characteristics:

i. Round-the-clock service

Banking is available around the clock, seven days a week, thanks to modern technology. Self-service banking allows customers to access their accounts whenever they choose. From that point on, they are no longer bound by the bank's official opening and closing times.

ii. People free contact

In today's financial system, customers and service providers seldom interact directly with one another. Electronic banking makes the bank's services accessible to customers. Technology in banking includes everything from online and mobile banking to automated teller machines and credit cards. Yet, the fact that it is more difficult to identify the proper client by ID and password than by face-to-face identification makes the absence of face-to-face interaction the main barrier to contemporary banking.[7]

iii. Homogeneity

There is a lot of room for variation in the delivery of traditional services, which makes it difficult to create standards. Although the channels and services offered by any given contemporary bank may look and feel the same, the actual performance you get may vary depending on where you are and how fast your internet connection is.

iv. Cost-effectiveness

Customers and financial institutions alike may save money because of the convenience and efficiency of today's banking services. With the advent of new channels, banks may provide their services at much lower transaction costs than in the past. It's been shown that using a digital banking platform saves money compared to using a conventional bank.

v. Accessibility

Banks can now reach more people, regardless of their location, thanks to technological advancements that have lowered the cost of delivery. In any country where there is reliable internet access, you may use its borderless financial services. Your account is accessible around the clock, from any location.[8]

3. MODERNIZE TRADITIONAL BANKING ASPECTS

Conventional financial institutions have, for the most part, not deviated much from their time-tested procedures since those procedures have shown to be effective. Some banks have decades of experience, and they continue to offer protection for their loyal customers, especially those customers who are of more advanced age or who wish to make regular cash deposits. The following three features of traditional banking may be beneficial to financial organizations that desire to pursue a digital-first strategy:

i. Interpersonal connection

Traditional banks and credit unions take great pleasure in providing individualized service. They provide the face-to-face interactions that have traditionally facilitated the development of devoted clientele. Traditional institutions have an advantage in terms of interpersonal ties because of their longevity and massive size. Companies have access to a wealth of information given by customers, allowing them to tailor their service to each individual's needs—so long as they do it ethically and sensibly.[9]

ii. Trust

Trust is a significant advantage that traditional banks have over newer, digital-only institutions. According to the results of a worldwide consumer banking survey conducted by EY, clients of conventional banks are more sure that their data is safeguarded, feel more powerful, and prefer the opportunity to contact their financial institution through a branch if necessary.

iii. Reassurance

When it comes to more intricate services, customers prefer face-to-face contact. A third of Gen Xers and millennials each say they prefer to go to a branch for financial help.

4. TRADITIONAL BANKING VS. MODERN BANKING

The Banking and Financial Sector is Now Debating Whether to Stay Exclusively "Brick and Mortar" or "Go Digital" (if you are in this industry and have not yet had this conversation, START today). Traditional banks continue to be cumbersome in terms of their structure, their guiding principles, and their responsiveness to the needs of a rapidly evolving market. These new, branchless banks are light (as in little weight, not heavy), adaptable, and quick to respond to changes in the marketplace brought about by both customers and competitors.

Conventional banks continue to operate on the assumption that customers must physically visit their locations; hence, they invest heavily in physical "banking" infrastructure (human capital, documentation). When a firm is created, it must pay for things like office space, electricity, water, etc., even if those things aren't strictly essential. When those costs are spread over many locations, they quickly add up.

To maximize profits while minimizing expenses, a contemporary bank could have a single manager who is responsible for all of their branches and a support staff that handles inquiries from clients in all of their locations by phone, email, and video conferencing. Technology is used by today's banks to cut down on overhead costs, and agile and lean frameworks are used to further increase value for staff via more autonomy and responsiveness to customer needs. Large and small technology firms have been able to chip away at the traditional banking and financial sector thanks to the concept of Modern Banking. Amazon allows customers to put money aside until they're ready to make a purchase; this takes money out of the hands of a conventional bank that may have kept the money and earned interest. Also, depending on account activity and membership periods, they provide substantial lines of credit to businesses and people; hence, this client no longer has to visit the Bank to get a credit (loan). Contrary to popular belief, Amazon does provide certain banking services. While not a bank, Alibaba also provides banking services, and the list goes on.[10]

Whether you're part of a bank's upper management or not and you're not having this discussion, you're falling behind and need to get up to speed. Customers nowadays have little patience for brand loyalty and want services to be provided whenever and wherever they may be. Thus, traditional building materials are no longer enough. The future of banking will inevitably be fully digital and cutting-edge.

5. SOME MAJOR BANKING LAWS OF TRADITIONAL BANKING

i. National Currency and Bank Acts (1863-1864)

It's the very first important piece of legislation passed by the United States federal government. The Office of the Comptroller of the Currency was established by this legislation as a sub-department of the U.S. Treasury Department responsible for the chartering of new national banks (OCC). New national banks are evaluated by the Comptroller, who then decides whether or not to charter them and conducts routine inspections.

ii. The Federal Reserve Act (1913)

The Federal Reserve is the second government entity in charge of regulating financial institutions. Its primary functions are to stabilize financial markets and the economy to maintain public trust, and to act as a lender of last resort, making short-term loans to depository institutions in times of financial emergency. Establishing a statewide network to clear and collect checks was another crucial function of the Fed. This is now the Fed's (or any Central Bank's) top priority.

iii. The Banking Act of 1933 (Glass Steagall)

Nine thousand banks went down between 1923 and 1933. The Glass-Steagall Act was a response to these abuses. For almost half a century, the act's restrictions on commercial banks set the industry's limits. Separating commercial banking from investment banking and insurance was a major step forward.[11]

6. ONLINE BANKING

These days, people can't live without the convenience of online banking. Sixty-six percent of respondents to the same poll cited a strong online presence as a deciding factor when choosing a financial institution. A large majority of Europeans are demonstrating this by using online banking; 59% of European internet users.

Most conventional financial institutions now provide some kind of online banking to their clients as a means of remaining competitive and better serving their consumers. Unlike brick-and-mortar locations, online banking services like checking account balances, making transfers, opening new accounts, and even applying for a mortgage are accessible around the clock, every day of the week. Customer service channels available online, such as e-mail, chat, and video call, are quickly replacing traditional channels, such as telephone and in-person visits to bank branches.

One study found that 47% of people throughout the world used mobile banking in 2016. Customers may now make instantaneous digital payments in-store, at events, and online thanks to the proliferation of banking applications.

Yet, there may be costs associated with this level of ease. The rise of internet banking has coincided with an increase in cybercrime because it provides a new channel for fraudsters to exploit: if a consumer logs into their account from a public Wi-Fi, for example, anybody who happens to be listening in might steal their credentials. Those who aren't as tech-savvy as others may fall for phishing emails that look to come from legitimate sources, such as their bank. In addition to protecting their websites and mobile applications, banks that provide online banking services have a responsibility to educate their consumers on the subject.[12]

6.1 Types of banks

There are several varieties of banks due to the dynamic nature of the banking industry. Each serves a certain group by providing services that meet their specific requirements.

i. Retail banks

These financial organizations cater to the public at large by providing various banking services. A retail bank is a kind of financial institution that provides monetary services to the general public, such as deposit accounts, savings accounts, and investment products like credit cards and retirement accounts.

ii. Commercial banks

These financial institutions focus on serving corporate customers, such as businesses of all sizes, nonprofits, and governmental entities. Their offerings tend to be more niche, although they do provide finance for things like property and machinery.

iii. Community development banks

Community banks, as opposed to commercial and retail banks, are nonprofit organizations with a focus on the community. Their primary clientele is members of socially excluded groups.

iii. Investment banks

Investment banks, as the name suggests, do not provide loans but rather seek profitable investments for their clients or the bank's money.

iv. Online banks

Online banks, often known as neo banks or virtual banks, don't have physical locations. Companies thrive on easy-to-use systems that can be accessed online, saving you time and effort on your trip to the bank. Almost all online banks use the services of a conventional bank to handle customer deposits and withdrawals.

v. Credit unions

A credit union is a financial cooperative whose members own and run the organization. A credit union is a financial cooperative that offers deposit and lending services. Possible benefits include cheaper interest rates and fewer fees than you'd get with a "real" bank.[13]

7. DIFFERENT E-BANKING SERVICES PROVIDED IN BANKS

i. ATM

The use of ATMs is widespread nowadays. Automatic teller machines (ATMs) are a crucial part of keeping customers happy and keeping banking fees low. To guarantee "Time Banking" or "Any Time Money," ATMs are quickly becoming the most important instrument. An automated teller machine card, or ATM card, is a magnetic stripe card that can only be used with a specific PIN. You may use an ATM card to check your account balance, withdraw cash quickly, update your cash book, pay bills, and more.

ii. Internet Banking

Online banking is a kind of retail banking that allows users more flexibility in managing their accounts. Internet banking allows you to pay your bills, buy stocks and shares, pay your insurance premiums, make charitable contributions, and more, all from the comfort of your own home.

iii. Mobile Banking

At the desire of its clients, banks now provide mobile banking services. Customers may access this feature of our mobile banking product with a unique ID and password. Money orders, instant payments, bill payments, mobile and DTH recharge, M-Commerce transactions, and more.

iv. Telephone Banking

The bank's customers may use their secure ID and TPIN number to access this service over the phone. See your account balance, view your latest three transaction histories, check the status of a check, alter your TPIN, and much more with the convenience of telephone banking.[14]

v. Cards Facility

Several debit and credit card options are made available by financial institutions. Customers may use these cards for a variety of purposes, including making in-store and online purchases, bill payments, and more.

8. CONCLUSION

In conclusion, the banking system of today has completely altered the way financial services are provided to the general public. Increased efficiency, convenience, and innovation brought forth by the system have greatly enhanced the banking experience for clients while decreasing the financial burden on financial institutions. To better serve its consumers, the contemporary banking system has expanded its reach and made its services available 24/7, as well as created specialized goods and services. Banks are now able to execute transactions more quickly and with fewer mistakes because of the growing use of technology.

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