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REVIEW ARTICLE

TRANSFORMATION IN INDIAN BANKING

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Transformation in Indian Banking

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INTRODUCTION

Computerization of banking has received high importance in the recent years. Indian banking industry today is in the midst of an IT revolution. A combination of regulatory and competitive forces has led to increasing importance of total banking automation in the Indian banking industry. Hence there is a paradigm shift in banking in India as they started to realize the need to be 'Customer focused' which is imperative for survival and growth. Many aspects of information technology ATMs, tele- banking, mobile banking, internet banking along with consumer durable loans, home loans, insurance, demat services etc have started taking place, especially after the entry of private and foreign banks which had advantage of the latest technology.

That's why banking has become more competitive in today's world market and for our public sector banks; it's the question of survival. In India though the money market is still characterized by the existence of both the organized and the unorganized segments, institutions in the organized money market have grown significantly and are playing an increasingly important role. Amongst the institutions in the organized sector of the money market, commercial banks and commercial co-operative banks have been in existence for the past several decades. The Regional Rural Banks (RRBs) came in to existence since the middle of seventies. Thus with the phenomenal geographical expansion of the commercial banks and the setting up of the RRBs during the recent past, the organized sector of money market has penetrated into the rural areas as well. Besides the aforesaid institutions which mainly served sources of short term credit to industry, trade, commerce and agriculture, a variety of specialized financial institutions have been set up in the country to cater to the specific needs of industry, agriculture and foreign trade. On the basis of Reserve Bank of India Act, 1934 banks are of two types:

1. Schedules Banks

2. Non-Scheduled Banks

Scheduled Commercial Banks: According to RBI Act 1934, a scheduled bank is that bank which has been included in the second schedule of the Reserve Bank of India. To be eligible for this concession a bank must satisfy the following three conditions:-

- It must have a paid up capital and reserves of an aggregate value of at least Rs.5 lakhs.

- It must satisfy the RBI that its affairs are not conducted in a manner detrimental to the interests of its depositors.

- It must be a corporation and not a partnership or a single owner firm.

RBI gives these banks number of facilities like credit, rediscount hundies etc. These banks have to deposit fixed proportion of their demand and time deposits with RBI. Non-Scheduled Commercial Banks: Non-scheduled commercial banks are the banks having total capital less than Rs.5 lakhs. These banks are not included in the second schedule of the RBI Act, 1934. RBI has no specific control upon these banks. But they have to send details of their business to the RBI every month. These banks are falling gradually in numbers, at present only 3 such banks are working in India.

Among the banking institutions in the organized sector, the commercial banks are the oldest institutions having a wide network of branches, commanding utmost public confidence and having the loin's share in the total banking operations. Initially they were established as corporate bodies with share- holdings by private individuals but subsequently there has been a drift towards state ownership and control. Today 27 banks constitute the strong Public Sector Banks in Indian Commercial Banking. Up to late sixties, they were mainly engaged in financing organized trade, commerce and industry but since then they are actively participating in financing, agriculture, small business and small borrowers also. One sector that has undergone fundamental changes as a consequence of the application of IT is banking. Information technology developments in the banking sector have sped up communication and transactions for clients. The new technology has radically altered the traditional ways of doing banking business. Increasingly, the customers in retail sector are doing business with their banks from the comfortable confines of their homes or offices. Customers can view the accounts, get account statements, transfer funds, purchase drafts by just making a few key punches. Availability of ATMs and plastic cards to large extent avoid customers going to branch premises. EDI is another development that has made its impact felt in the banking industry. In fact in banking industry, IT is finding its use in five key areas.

- Convenience in product delivery access
- Managing productivity access,
- Product design,
- Adapting to market and customer needs and,
- Access to customer market.

Electronic Funds transfer and delivery versus payment system have been introduced. Bank customers are becoming very demanding and it is the extensive use of technology that will enable banks to satisfy adequately the requirement of customers. With the coming into the effort of the IT Act, India had reached the significant mile stone on the information super highway .The Act provide legal sanctity. To electronic commerce and lays down penalties for hacking and other crime. India will become the 12th country in the world to have an IT bill in place for recognizing digital signature and facilitating e-commerce.

REVIEW OF THE LITERATURE:

Abdullah D.N.M.A. and Rozario F. (2009) study the influence of service and product quality towards customer satisfaction. 149 respondents from one of the well-known hotel in Kuala Lumpur, Malaysia are selected as a sample. Psychometric testing is conducted to determine the reliability and validity of the questionnaire. The study finds positive significant relationship between place/ambience and service quality with customer satisfaction.

Although, relationship between food quality and customer satisfaction is significant, it is in the negative direction. Future researchers can concentrate on determining attributes that influence customer satisfaction when cost/price is not a factor and reasons for place/ambience is currently becoming the leading factor in determining customer satisfaction.

Aktan B., Teker E. and Erosy P. (2009) examines the usage of internet in Turkey to make a basic due-diligence investigation for the financial institutions, including banking, stock trading, insurance and provision of financial information over the period 2005 and 2008. The findings show that internet usage in Turkey with its young population has continued to grow dramatically in financial services in terms of customers and financial transactions of various natures.

Azouzi Dhekra (2009) aims to check if the current and prompt technological revolution altering the whole world has crucial impacts on the Tunisian banking sector. On the basis of empirical analysis, the study concludes that panoply of factors is affecting the customers attitude toward e-banking. For instance; age, gender and educational qualifications seem to be important and they split up the group into electronic banking adopters and traditional banking defenders and so, they have significant influence on the customers' adoption of e-banking. It also shows that despite the presidential incentives and in spite of being fully aware of the e-banking benefits, numerous respondents are still using the conventional banking. Fear of loss because of transactions errors or hackers plays a significant role in alienating Tunisian customers from online banking. Finally, the study highlights the limitations and suggests some research perspectives.

Ganesan R. and Vivekanandan K. (2009) describe a secured hybrid architecture model for the internet banking using Hyperelliptic curve cryptosystem and MD5. This hybrid model is implemented with the Hyperelliptic curve cryptosystem (HECC) and it performs the encryption and decryption processes in an efficient way merely with an 80-bit key size. The various screen shots given in this contribution shows that the hybrid model which encompasses HECC can be considered in the internet banking environment to enrich the privacy and integrity of the sensitive data transmitted between the clients and the application server.

Hua G. (2009) investigates the online banking acceptance in China by conducting an experiment to investigate how users' perception about online banking is affected by the perceived ease of use of website and the privacy policy provided by the online banking website. The 110 undergraduate students in Chinese University are involved in the investigation . The study finds that both perceived ease of use and privacy policy have a significant impact on user's adoption of online banking. The study also investigates relative importance of perceived ease of use, privacy, and security. Perceived ease of use is of less importance than privacy and security. Security is the most important factor influencing user's adoption. The study also discusses the implications of these results and limitations.

Ismail A., Abdullah M.M.B. and Sebastian K.F. (2009) explore the relationships among service quality features (responsiveness, assurance, and empathy), perceived value and customer satisfaction in context of Malaysia. The empirical data is drawn from 102 members of an academic staff of a Malaysian public institution of higher learning using a survey questionnaire. The results indicate that the interaction between perceived value and responsiveness is not significantly correlated with customer satisfaction, the interaction between perceived value and assurance also does not correlate significantly with customer satisfaction and the interaction between perceived value and empathy correlated significantly with customer satisfaction. Thus the results demonstrate that perceived value has increased the effect of empathy on customer satisfaction, but it has not increased the effect of responsiveness and assurance on customer satisfaction.

Janson N. (2009) analyzes the consequences of the major instability introduced by internet banking on the bank's ability to manage a liquidity crisis in Northern Rock Bank. The study shows that inconsistency of the Bank of England policy lead to the initial bank run and that because it persists in that direction it further lead to the bank's bankruptcy. Internet banking does not cause the failure of the bank but it certainly accelerates the fall of the bank which calls for a greater consistency of the central bank role as a lender of last resort. The study concludes that despite the existence of lender of last resort and deposit insurance scheme, markets participants and individual depositors in particular do not like confusing messages during uncertain times.

Kamble S. S., Sawhney S. and Bansal R. (2009) aims to identify online service quality dimensions that facilitate the customer satisfaction for the e-travel and e-mart online retail. Further, they evaluate how well these dimensions are perceived by the customers so as to provide an objective measure of service performance. Ten e-service quality dimensions are identified and the extent to which current online retailers provide online service attributes are analyzed to be low or moderate on most of the dimensions for both the e-travel and e-mart service providers. The model tested for the relationship between the service quality dimensions and customer satisfaction is also found to be correlated at a low level.

Oghenerukeybe E. A. (2009) describes a user study performed to investigate user's perception of factors influencing the effective implementation of existing SI objectives and to evaluate the effectiveness of SI in banking web browsers using the Communication-Human Information Processing Model (C-HIP) model, a model proposed by Wogalter in 2006 in the field of warning sciences. Findings reveal that SI is not very effective at alerting and shielding users from revealing sensitive information to spoofed sites. 27 pc participants do not understand the full meaning of the SI noticed in the banking sites while the attention of some users is not captured enough, for they ignore the warnings completely. Even with the presence of SI, 18.3 pc participants still go ahead to submit sensitive information. These outcomes may help the management of banks develop effective security strategies for the future of electronic banking in Nigeria.

Rao N. and Tiwari S. (2009) study the efficiency of 5 public sector banks selected on the basis of deposits size in 2005. The study concludes that all employee efficiency factors have insignificant influence on deposits, assets and advances, from branch efficiency, only operating profits per branch and from operating efficiency, cost of deposits have significant and positive impact. Liquidity influencing factors and ultimate profit factors do not influence deposits, assets and advances significantly although all profit factors have negative effect. The study also suggests some measures to improve efficiency.

COLLECTION OF DATA

The present study is based on secondary and primary data. Secondary data was collected for the analysis of profitability and productivity from following publications;

i) Performance Highlights, Various Issues, IBA (Mumbai) 1996-97 to 2006-07

ii) IBA Bulletin (Special Issues), 1996-97 to 2006-07

iii) Report on Trend and Progress of Banking in India, 2000 to 2009

iv) Indian Banking at a Glance, 2006

v) Annual Reports of these Banks.

Various other RBI publications, The Financial Express, The Economic Times, and the Monthly Review of the Banks have also been consulted for the required data. The data regarding number of e-channels (ATMs, Credit Cards, Internet Banking Branches, Mobile Banking Branches and Tele Banking Branches) was collected from IT departments of respective banks through the cooperation of IBA, Mumbai. The primary data was collected through pre-tested and well draft questionnaire from bank customers and bank employees personally.

OBJECTIVES OF THE STUDY:

1. To analyze the various products/services distributional channels and their impact on productivity of banks.

2. To study and analyze the comparative efficiency in terms of profitability in partially IT using banks and e-banking in India.

3. To study the extent of comparative cost differences between the banks/bank groups

while managing transformation through different e-delivery channels.

4. To study the problems and prospects for e-banking in India and predict the future of e-banking in India.

5. To suggest possible measures in the light of problems, if any, how to mould these challenges into opportunities.

6. To study the perceptions of bank customers, bank employees regarding the use of various products/services delivery channels and their acceptability in urban Punjab. The study will also analyze:

HYPOTHESIS:

H0: Employee Productivity/Branch Productivity is not significantly correlated with e-channels in pre and post e-banking period.

H0: Profitability is not significantly correlated with each e-channel in pre and post e-banking period.

H0: The perceptions of bank customers regarding e-banking services are not significantly different with respect to bank groups, age, income and occupation.

H0: The perceptions of bank employees regarding e-banking services are not significantly different with respect to bank groups and work experience.

ANALYSIS:

The ratios were analyzed and interpreted by calculating Mean, Standard Deviation, Co-efficient of Variations to get a better picture of the performance of Indian commercial banks. Weighted Average Score (WAS) has also been calculated to draw ultimate conclusions from customer perceptions. Despite this, correlation co-efficient and R-square were also calculated to study the relationship between productivity and selected factors affecting of productivity where r-square provides more useful information as it tells the extent of relationship between the factors under study. Ranking method is also used for various conclusions where ranking is made on the basis of average and total score. To make study more reliable, growth rates, various statistical techniques, co-efficient of contingency, regression analysis, Chi-square, t-test and factor analysis were used. Data is calculated with the help of SPSS 15.00 Version.

SCOPE OF THE STUDY:

This study covers various information technology tools, used to manage the transformation in banks. In general, the study covers all the banks of major five bank groups (RRBs and Cooperative banks are excluded) and in particular, the banks in the sample selected from each bank group on the basis of their market share in deposits, advances and net profits in the year 2003-04. To know the perceptions of customers and bank employees regarding the use of IT in banks to manage the transformation in the banks, 516 customers and employees of Urban Punjab are surveyed. The study also analyzes the comparative costs in partially and fully IT oriented banks and their services quality.

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