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Topic: "A Study on Investment Management in Indian Banking Sector"

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Abstract

The Banking sector is facing stiff competition across the globe due to global competition. It is why innovation is required. Managing innovation is difficult in service companies due to the complex nature of service itself, which is intangible. While manufactured products may be offered with or without customer service elements, nearly all service products involve close interaction with customers. Therefore, innovation in service companies is not only about "what" is being offered but also about "how" it is being offered. 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. 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. This research is being carried out with the objectives of to understand the Various Banking services. To Know Bench marking of service standards to improve productivity and Proficiency, Enhancement of customer service and diversifying products, and Innovations in technology. And the research paper has been prepared by using primary and secondary data.

Key words: Innovations in Banking, Intangible products, Electronic transactions.

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Introduction:

The Banking sector is facing stiff competition across the globe due to global competition. It is why innovation is required. 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

India is a country with huge population and the demographic growth of India is such that it is going to become the most populated country very soon. Technological advancements can bring about close integration between the urban and rural population. The primary challenge is to give consistent service to customers irrespective of the kind of customer whether rural or urban. Retention of customers is going to be a major challenge. Banks need to emphasis on retaining customers and increasing market share. Even with ATM machines and Internet Banking, many consumers still prefer the personal touch of their neighborhood branch bank. Technology has made it possible to deliver services throughout the branch bank network, providing instant updates to check accounts and rapid movement of money for stock transfers. However, this dependency on the network has brought IT department's additional responsibilities and challenges in managing, maintaining and optimizing the performance of retail banking networks. Illustratively, ensuring that all bank products and services are available, at all times, and across the entire organization is essential for today's retails banks to generate revenues and remain competitive. Besides, there are network management challenges, whereby keeping these complex, distributed networks and applications operating properly in support of business objectives becomes essential. Specific challenges include ensuring that account transaction applications run efficiently between the branch offices and data centers. Banks in India will now have to work towards a vision to have an enhanced retail delivery system. Such a system would include transformed branches, enhanced telephone services, and leading-edge internet banking functions that provide a consistently positive multi-channel experience for the customer. Some of the challenges that the banks are facing today are:

- Competition from private banks
- Competition from MNCs
- Managing diversified needs of customers

- Diminishing customer loyalty
- Coping with regulatory reforms
- Restructuring and reorganizing banks' setup towards thinner and leaner administrative offices;
- Maintaining high quality assets.
- Management of impaired assets.
- Keeping pace with technology up-Gradations
- Problem of Non-Performing Assets (NPA)

The banking industry is changing at a phenomenal speed. While at the one end, we have millions of savers and investors who still do not use a bank, another segment continues to bank with a physical branch and at the other end of the spectrum, the customers are becoming familiar with ATMs, ebanking, and cashless economy. This shows the immense potential for market. Banks are setting up alternative delivery channels to contain operating costs like off-site ATMs, internet banking, telebanking, outsourcing, centralized transaction processing, etc.

Objectives of the Study:

- 1. To understand the need for innovations in banking for enhanced efficiency of the banking services.
- 2. To analyze the changes occurring in the Indian banking sector and how these changes are likely to influence the way banking will be done in the future.
- 3. To study customer services, diversifying products and Innovations in technology.

Methodology: This is a descriptive type of research where many references and analysis were made with the help of existing data.

Innovations in banking sector

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, and consequently, the banks. Banking industry in India has also achieved a new height with the changing times. Customer services and customer satisfaction are prime responsibilities of banks now days. Information technology has given rise to new innovations in the product designing and their delivery in the banking and finance industries. 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. Banking through internet has emerged as a strategic resource for achieving higher efficiency, control of operations and reduction of cost by replacing paper based and labor intensive methods with automated

processes thus leading to higher productivity and profitability. Financial innovation associated with technological change totally changed the banking philosophy and that is further tuned by the competition in the banking industry. Challenging business environment within the banking system create more innovation in the fields of product, process and market.

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.

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.

ATM-An automated teller machine (ATM) is a computerized telecommunications device that provides a financial institution's customers a secure method of performing financial transactions in a public space without a human clerk or bank teller. ATM facilitates customers deposit and withdraw money, fund transfer, bill payment also multiple services.

Debit Card and Credit Card-A debit card is an electronic card issued by a bank which allows bank clients access to their account to withdraw cash or pay for goods and services. This removes the need for bank clients to go to the bank to remove cash from their account as they can now just go to an ATM or pay electronically at merchant locations. This type of card, as a form of payment, also removes the need

for cheques as the debit card immediately transfers money from the client's account to the business account.

A credit card is issued by a financial company giving the holder an option to borrow funds, usually at point of sale. Credit cards charge interest and are primarily used for short-term financing. Interest usually begins one month after a purchase is made and borrowing limits are pre-set according to the individual's credit rating.

NEFT-According to Reserve Bank of India, National Electronic Funds Transfer (NEFT) is a nation-wide payment system to facilitate one-to-one funds transfer. Under NEFT, individuals, firms and corporate can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme. The funds under NEFT can be transferred by individuals, firms or corporate maintaining accounts with a bank branch. Even individuals not having a bank account can deposit cash at the NEFT-enabled branches with instructions to transfer funds using NEFT. However, such cash remittances will be restricted to a maximum of Rs.50, 000/- per transaction. Such walk-in-customers have to furnish full details including complete address, telephone number, etc. NEFT, thus, also help in transfer of funds even without having a bank account. This is a simple, secure, safe, fastest and cost effective way to transfer funds especially for Retail remittances.

RTGS- Real Time Gross Settlement system(RTGS), introduced in India since March 2004, is a system through which electronics instructions can be given by banks to transfer funds from their account to the account of another bank. The RTGS system is maintained and operated by the RBI and provides a means of efficient and faster funds transfer among banks facilitating their financial operations. As the name suggests, funds transfer between banks takes place on a 'Real Time' basis. Therefore, money can reach the beneficiary instantaneously and the beneficiary's bank has the responsibility to credit the beneficiary's account within two hours.

Electronic Banking- 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.

Internet banking – also referred as online banking, web banking or virtual banking, an outgrowth of PC banking, is a more developed service, a system that enables bank customers to access accounts and general information on bank products and services or perform account transactions directly with the bank through a personal computer using the internet as the delivery channel; customers are able to

access all of their accounts through the website of the bank and are allowed to conduct banking activities such as transferring funds, paying bills, viewing account balances, paying mortgages or purchasing financial instruments and certificates of deposits.

Mobile banking - is a system that allows bank customers to conduct different financial transactions through a mobile device, being the newest service in electronic banking; mobile banking relies on WAP (Wireless Application Protocol) technologies since a mobile device requires a WAP browser installed in order to allow access to information.

Core Banking- is a banking service provided by a group of networked bank branches where customers may access their bank account and perform basic transactions from any of the member branch offices.

Core banking is often associated with retail banking and many banks treat the retail customers as their core banking customers. Businesses are usually managed via the Corporate banking division of the institution. Core banking covers basic depositing and lending of money. Core Banking functions will transaction accounts, loans, mortgages and payments. Banks make these services available across multiple channels like ATMs, Internet banking, mobile banking and branches. The Core banking facilitates the customers to access their accounts anywhere anytime through ATM and Net Banking.

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

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.

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.

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.

- The Core banking facilitates the customers to access their accounts anywhere anytime through ATM and Net Banking.
- Due to technological changes and computerization in banking sector, maintenance of various types of documents and access to those it has become easier and faster to deliver the services to customers.
- New technologies enabled banks to serve and assist customers not only in branches, but anywhere in the world at any time and through any delivery channel a customer cares to select.
- With the convenience of digital channels, customers are visiting branches less often and they use online and mobile technology for their banking needs more often.
- Online and mobile banking are growing fast while branch importance decline rapidly.
 Nevertheless, branch banking is still preferred by customers when it comes to getting banking advice.

Conclusion

India is one of the top 10 economies in the world, where the banking sector has tremendous potential to grow. The number of ATMs has doubled over the past few years, with more than 100,000 in the country at present (70 per cent in urban areas). They are estimated to further double by 2016, with over 50 per cent expected to be set up in small towns. Also, the scope for mobile and internet banking is big. At the start of 2013, only 2 per cent of banking payments went through the electronic system in the country.

Today, mobility and customer convenience are viewed as the primary factors of growth and banks are continuously exploring new technology, with terms such as mobile solutions and cloud computing being used with greater regularity. However, Indian banking industry faced the numerous challenges such as increasing competition, pressure on spreads, and systemic changes to align with international standards have necessitated a re-evaluation of strategies and processes in order to remain competitive in this dynamic environment. Banks have to adopt a holistic approach to fulfill the ever changing needs of customers and to grab a better market share. Development of sophisticated products with low cost technology is the key. This calls for in- depth analysis of customer needs the market and competitor trends. This analysis plays a very important role in devising new strategies, products and services. Due care will have to be made while embracing technology and transforming traditional touch points to electronic ones, so that human touch with customers is also not lost. In the end, it can be rightly said that productivity and efficiency will be the watch words in the banking industry in the years ahead. Strategizing organizational effectiveness and operational efficiency will govern the survival and growth of profits; besides bringing changes in the mindset of the employees, which is imperative with the changing times.

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.

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