

Innovations in the Banking Industry: A Study

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Abstract: Liberalization, Globalization and FDI in the Indian Banking sector has increased the expectations of the customers. Banks are now focusing on more innovation in their financial services. Innovation not leads to efficiency but also decrease the cost of the transaction. E-Banking, RTGS, EFT, Mobile Banking, Debit cards and Credit cards are the some examples of innovation in the banking services. Banks have now no longer restricted themselves to traditional banking activities, but using a vast range of innovative products to increase business and capture the market. This paper highlights the use of innovation in the services by the Indian banks.

Keywords: -RTGS, Innovation, Liberalization, E-Banking.

1. Introduction:

Financial innovation is the act of creating new financial products, technologies, institutions, markets, processes and models according to the changing situations. Financial innovation includes innovation in the financial environment. Innovation means creating new things or old things in a new way. In reality, There is a vast range of different financial products and processes that financial institutions use in their processes, investors use to mitigate the risk. Banking firms are now using innovation in its services. In 1990s, Indian banking sector realized the need of modernization of the services. Over the years, the banking sector in India has seen a number of changes. Most of the Indian banks have adopted an innovative approach to cater the needs of the public. Banks are now using technology in catering the needs of the customers. Financial innovation helps to reduce the cost of transactions, better allocation of resources and speedy settlement. Now all the banks have started with the concept of multi- channels, like ATMs, credit cards, debit cards, telephone/mobile banking, internet banking, call centers, etc. The role of banking is redefined from a mere financial intermediary to service provider of various financial services under one roof acting like a financial supermarket.(1)

2. Literature review:

The advancement of new technology is the main reason of innovation in banking services. The scenario has been completely changed. The electronic delivery channels increase transparency and can lead to higher competition among banks, and a most significant point-through lower costs, penetrating new markets and expanding the geographical reach(International Monetary Fund,2011). Internet banking is not only convenient for customers, it also negates the need for keeping some bank branches open for 24 hours a day to provide unparalleled customer service. (2) Internet banking is a new delivery channel for banks in India. However, i-banking has not been popularly adopted in India as expected (Ravi et al., 2007).

Internet banking is the act of conducting financial intermediation on the Internet (Kim et al., 2006). Number of internet users is increasing day by day. The growth of E-business and E-Banking depends upon the growth of internet penetrating rate. Internet banking, however, is now used as the term for new age banking system (Singhal and Padhmanbhan, 2008). In a competitive market place, understanding customer's needs is very valuable. Satisfaction is the main source of attracting customers (Patterson et al., 1997). In banking sector, it is very important to understand the factors leading to satisfaction, which will evidently lead to loyalty (Vanriel et al., 2001)

3. Objectives of study:

- To study how innovation is catering the needs of the customers in banking

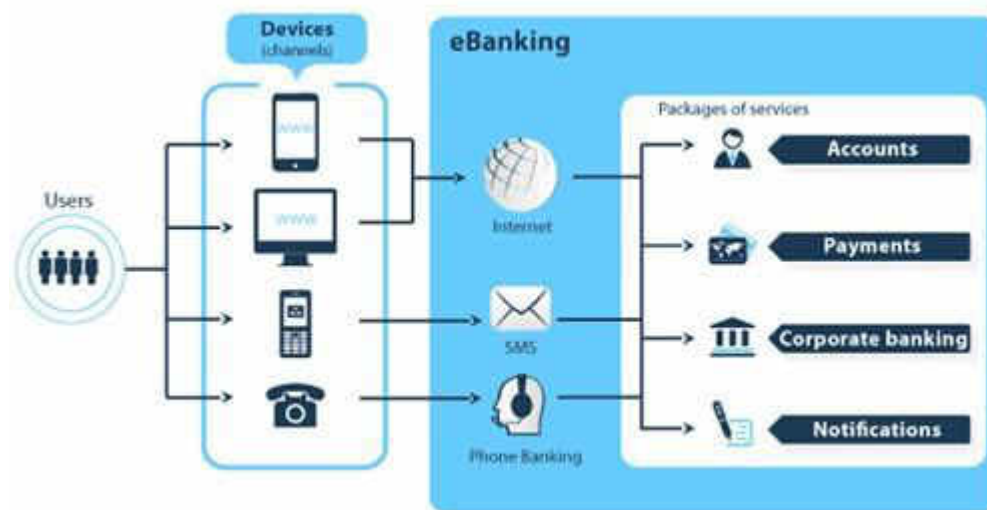
- To study the need of innovation in the banking sector

4. Research methodology:

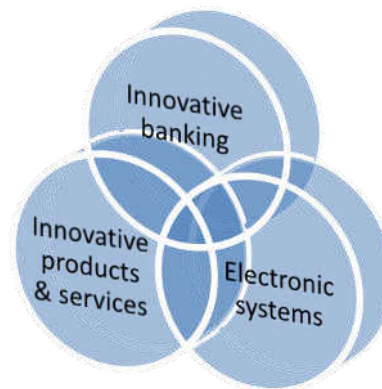
This research covers all types of bank in India. Presently, all banks in India use innovative banking services like ATM, Mobile banking, RTGS, Plastic cards etc. Data and information were gathered from secondary sources which included books, journals, newspapers, websites, and research studies.

5. E-Banking model:

To use the E-Banking services, one must have an electronic device like personal computer, cellular phone, telephone, smart phone, tablet or other similar device.



6. Innovations in banking sector:



Banking sector today is fastest and paced and is consistent in its throes of changes, with new regulation, new process and new policies. (3)

The main cause behind the innovation in banking sector is rapid advancement in IT. Information technology has given rise to the innovations in the banking services.

ICICI bank was the first India bank to provide internet banking facility.

First bank to introduce ATM in India was HSBC in 1987, Mumbai.

Central Bank of India was the first public bank to introduce Credit card.

ICICI is the first bank to provide mobile ATM.

7. Types of Innovative Banking:

E-Banking

Electronic banking is a major innovation in the field of banking. It enables the people to carry out their business transactions using a website which is designed and operated by their respected banks. In this, any user with a personal computer and a browser can connect to the bank's website and perform any of the virtual banking functions.

Advantages of E-Banking:

- Opening of A/C has become simple and easy with E-Banking.
- Fund transfer has become faster & convenient.
- Cost effective
- Payment of bills, Apply for bank loan

Core Banking

Core Banking is related with the retail banking. Core banking is the system in which a customer may access his bank account from any branch of the bank.

Corporate Banking

It deals with the corporate customers. Commercial banks offer the following services to the corporate clients.

- Loans
- LOC-Letter of Credit
- Bill of collection
- Treasury services
- Portfolio evaluation

Investment Banking

Investment banks help the corporations and governments to plan and manage their projects and identify the risks associated with the large projects. Investment banks serve as middleman between a company and investors when the company wants to issue stock or bonds.

Rural Banking

Rural banking includes the financial services provided in the remote areas of the country.

NRI Banking

NRI Banking facilities are available to NRIs. It has been initiated to attract the savings and other remittances into India through banking channels from the person of Indian nationality.

Retail Banking

Retail banking focuses more on the individual customers rather than the corporations or other banks. Services offered include savings, loans, debit cards, credit cards.

KIOSK Banking

In this, A retailer can open a no-frills bank account for a customer by recording fingerprint details and taking a photograph of the customer. The details along with other documents are forwarded to the affiliated bank branch to carry out the know-your-customer process. Once the account is up, a customer can withdraw, deposit or remit a maximum of Rs 10,000 per day through the internet-enabled kiosk branch.

Mobile Banking

Mobile banking offers you the anytime and anywhere banking. You can access your bank account by your mobile.

8. Types of products and delivery channels:

ATM (Automatic teller machine)

ATM means at the moment. According to the English dictionary Cambridge a machine, usually in a wall outside a bank, shop, etc. from which you can take money out of your bank account using a special card.

Demat services

It is an easy and convenient way to hold shares. One can instantly transfer the securities to another.

Micro finance

It includes the financial services to small entrepreneurs and business firms.

Plastic money

It includes various plastic cards we use every day in place of actual bank notes. Plastic money includes credit cards, debit cards that we use to make purchases in our everyday life.

Mobile money

The use of a mobile phone in order to transfer funds between banks or accounts, deposit or withdraw funds, or pay bills. This term is also used for the broader realm of electronic commerce; it can refer to the use of a mobile device to purchase items, whether physical or electronic.

Electronic billing and payment systems

Presently, it has become easy to pay the bills or transfer the funds by using Mobile or Computer.

9. Alternative channels in Banking and customer convenience:

Technology has made the life of people very easy. Technology has greatly helped the banking sector to provide alternate delivery channels besides bank branches. (4)

E-Banking completely replaced the traditional banking system. It has been introduced due to increasing volumes of business transactions. E-Banking includes the following services:

- Bill payments
- Electronic fund transfer
- Shopping
- Phone recharge
- Credit card applications
- Loan applications
- Download bank statements
- Viewing Account balance

10. Conclusion:

Innovation has completely changed the way of banking today. Innovation is result of search for profits. The development of computer systems and the internet has made electronic payments of bills a cost-effective method over paper checks or money. (5) Presently, Banking does not mean accepting of deposits and lending of loans. The scope of banking services has widened. Rural banking, Corporate banking, KIOSK banking, Investment

banking, Universal banking, Priority banking are the some new concepts of banking. More innovation in services means more business to the banks.

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