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A CONCEPTUAL FRAMEWORK ON RECENT TRENDS IN BANKING SECTOR

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ABSTRACT

Banks plays an important role in the mobilization and allocation of resources in an economy. The sound financial position of a bank is the guarantee not only to its depositors but equally important for the whole economy of the nation. This paper looks at the performance of the banks in Globalisation scenario, their role in the economic development. Today banking is known as innovative banking. Information technology has given rise to new innovations in the product designing and their delivery in the banking and finance industries, customer services and customer satisfaction are their prime work. Finally the paper concludes in relating to banking sector will need to master a new business model by building management and customer services with a variety of products and controlled cost to stay in the long run by adopting new technologies.

Keywords: *Innovative Banking, Globalisation, Information Technology, Customer Satisfaction*

I. INTRODUCTION

The Banking industry plays a dynamic role in the economic development of a country. The growth story of an economy depends on the toughness of its banking industry. Banks act as the store as well as the power house of the country's wealth. They accept deposits from individuals and corporate and lends to the businesses. They use the deposits collected for productive purposes which help in the capital formation in the country.

Two decades ago global banking was traditionally characterised by relatively high levels of controls where regulatory authorities maintained a protected banking environment that inhibited competition. However, market conditions have undergone extensive changes over recent years. On the demand side, customer preferences have changed substantially, becoming more sophisticated and price conscious. On the supply side, the globalisation of financial markets has been accompanied by governmental deregulation, financial innovation and automation. These factors imply an increase in the number of competitors and a tougher operating environment. In addition, progress in technology, both back and front-office has enabled financial firms to extend their activities beyond narrow local or national boundaries and to increase their market share by providing competitive products to wider markets at a lower price. New suppliers of financial services have entered the market. As such, banks are now faced with strong competition from both banks and non-bank institutions. In this regard this paper works with an objective of the over view of banking industry at global level.

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II. GLOBAL BANKING INDUSTRY-AN OVERVIEW

At the beginning of the 21st century, the biggest banks in the industrial world have become complex financial organizations that offer a wide variety of services to international markets and control billions of dollars in cash and assets. Supported by the latest technology, banks are working to identify new business niches, to develop customized services, to implement innovative strategies and to capture new market opportunities. Although, the banking industry does not operate in the same manner all over the world, most bankers think about corporate clients in terms of the following:

- Commercial banking - banking that covers services such as cash management (money transfers, payroll services, bank reconcilement), credit services (asset-based financing, lines of credits, commercial loans or commercial real estate loans), deposit services (checking or savings account services) and foreign exchange.
- Investment banking - banking that covers an array of services from asset securitization, coverage of mergers, acquisitions and corporate restructuring to securities underwriting, equity private placements and placements of debt securities with institutional investors.

Over the past decade there has been an increasing convergence between the activities of investment and commercial banks, because of the deregulation of the financial sector. Today, some investment and commercial banking institutions compete directly in money market operations, private placements, project finance, bonds underwriting and financial advisory work.

Furthermore, the modern banking industry has brought greater business diversification. Some banks in the industrialized world are entering into investments, underwriting of securities, portfolio management and the insurance businesses. Taken together, these changes have made banks an even more important entity in the lobal business community.

III. RECENT TRENDS IN THE GLOBAL BANKING INDUSTRY

The global banking industry has been undergoing deep transformation.

The following trends can be outlined:

- The technological breakthrough caused by the eruption of e-banking and e-finance.
- Worldwide consolidation and consequent restructuring.
- Increasing competition in terms of both markets (geographic diversification) and products.
- "Contamination" among different industries, thanks to a progressive relaxation of regulations and huge inter industry acquisitions.
- A slowing population growth and increasing average life expectancy and per capita income. Since Western governments need to cut expenditures for old-age benefits to keep deficits under control, there will be an increase in the importance of private pensions, mutual funds, and private banking operations.
- The growing importance of a clear strategic intent in the banking industry. Banks, especially commercial banks, will be obliged to rethink their strategic positioning. While some banks are opting to offer a vast variety of products/services on a global scale, others are focusing on some specific market segment (retail banking, private banking, and corporate banking) or specific geographic area.

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- New competitors are entering the financial service business. In the retail banking industry, large department stores in the United Kingdom have entered the market for personal and mortgage loans, primarily to retain their customers.

IV. BANKING INDUSTRY-INDIAN SCENARIO

Today, the Indian Banking System is known the world over for its robustness. The Reserve Bank of India is the central/apex Bank which regulates the functioning of all banks operating within the country. With years, banks are also adding services to their customers. The Indian banking industry is passing through a phase of customers market. The customers have more choices in choosing their banks. A competition has been established within the banks operating in India.

With stiff competition and advancement of technology, the service provided by banks has become more easy and convenient. The past days are witness to an hour wait before withdrawing cash from accounts or a cheque from north of the country being cleared in one month in the south.

V.INFORMATION TECHNOLOGY AND BANKING SERVICES – THE TREND

Technology has a definitive role in facilitating transactions in the banking sector and the impact of technology implementation has resulted in the introduction of new products and services by various banks in India. During the last decade, payment services offered by banks to the common persons as well as the corporate bodies have improved substantially. It is partly due to increased use of technology in service delivery and partly due to procedural changes necessitated in the wake of competition amongst the banks.

With the introduction of electronic banking, banks are moving their focus of payments from the physical presence of money to the use of electronic money. Electronic banking refers to the use of technology which allows customers to access banking services electronically whether it is to pay bills, transfer funds, view accounts or to obtain information and advices. Customers can perform banking transactions such as balance enquiries, bill payments, transaction histories, and transfer of money between accounts, obtain quotes and submit equity option and mutual fund offers without having to step into the office on the branch. Payments can be made in India in the form of cash, cheque, demand drafts, credit cards, debit cards and also by means of giving electronic instructions to the banker who will make such a payment on behalf of his customers.

Product and Process Innovation in Banking Services

The new private sector banks have the technology to access customer date housed in their central warehouses. They are beginning to use it for generating new business leads. Public sector banks are making a beeline for Core Banking Solutions (CBS) – the technology that enables them to integrate all customer channels seamlessly. Branches are becoming delivery channels and employees salesmen. Banks are going beyond conventional banking and offering a lot more than vanilla deposits and loans. Following are the innovative services offered by the industry in the recent past:

1. Electronic Payment Services – E Cheques

A new technology is being developed in US for introduction of e-cheque, which will eventually replace the conventional paper cheque. India, as harbinger to the introduction of e-cheque, the Negotiable Instruments Act has already been amended to include; Truncated cheque and E-cheque instruments. Electronic payments can also be made in the form of Electronic Funds Transfer (EFT), Electronic Clearing Service (ECS) and through Real Time Gross Settlement (RTGS). Many banks in India have begun to offer certain banking services through Internet that facilitate transfer of funds electronically.

2. Real Time Gross Settlement (RTGS)

Real Time Gross Settlement (RTGS) system, introduced in India since March 2004, is a system through which electronic instructions can be given by banks to transfer funds from their account to the account of another bank. 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.

3. Electronic Funds Transfer (EFT)

Electronic Funds Transfer (EFT) is a system whereby anyone who wants to make payment to another person / company etc. can approach his bank and make cash payment or give instructions / authorization to transfer funds directly from his own account to the bank account of the receiver / beneficiary. Complete details such as the receiver's name, bank account number, account type (savings or current account), bank name, city, branch name etc should be furnished to the bank at the time of requesting for such transfers so that the amount reaches the beneficiaries' account correctly and faster. RBI is the service provider for EFT.

4. Electronic Clearing Service (ECS)

Electronic Clearing Service (ECS) is a retail payment system that can be used to make bulk payments / receipts of a similar nature especially where each individual payment is of a repetitive nature and of relatively smaller amount. This facility is meant for companies and government departments to make/receive large volumes of payments rather than for funds transfers by individuals.

5. Automatic Teller Machine (ATM)

Automatic Teller Machine (ATM) is the most popular devise in India, which enables the customers to withdraw their money 24 hours a day 7 days a week. It is a devise that allows customer who has an ATM card to perform routine banking transactions without interacting with a human teller. In addition to cash withdrawal, ATMs can be used for payment of utility bills, funds transfer between accounts, deposit of cheques and cash into accounts, balance enquiry etc.

6. Credit / Debit cards

Credit / Debit cards are being widely used in the country as they provide a convenient form of making payments for goods and services without the use of cheques and cash. Banks issue credit cards to their customers. The merchant establishment who accepts credit / debit card payments will claim the amount from the customer's bank through his own bank. For a customer the question may arise; how is a Debit Card different from Credit Card? Debit Card is a direct account access card. (Amount transacted gets debited immediately). The amount permitted to be transacted in debit card will be to the extent of the amount standing to the credit of the card user's account. On the other hand, a credit card involves provision of credit to the card user, which is paid by the card user on receipt of the bill either in full or partially in installments.

7. Point of Sale Terminal

Point of Sale Terminal is a computer terminal that is linked online to the computerized customer information files in a bank and magnetically encoded plastic transaction card that identifies the customer to the computer. During a transaction, the customer's account is debited and the retailer's account is credited by the computer for the amount of purchase.

8. Tele Banking

Tele Banking facilitates the customer to do entire non-cash related banking on telephone. Under this devise Automatic Voice Recorder is used for simpler queries and transactions. For complicated queries and transactions, manned phone terminals are used.

9. Corporate Banking Terminal

Corporate Banking Terminal enables the large corporate customers can log into the banks database and have access to their accounts/ transactions from their business houses.

10. Electronic Data Interchange

Electronic Data Interchange is the electronic exchange of business documents like purchase order, invoices, shipping notices, receiving advices etc. in a standard, computer processed, universally accepted format between trading partners. EDI can also be used to transmit financial information and payments in electronic form. EDI has resulted in huge savings in costs of exchanging trading information.

11. Implications

The banks were quickly responded to the changes in the industry; especially the new generation banks. The continuance of the trend has re-defined and re-engineered the banking operations as whole with more customization through leveraging technology. As technology makes banking convenient, customers can access banking services and do banking transactions any time and from any ware. The importance of physical branches is going down. Thus the changes have the following implications:

- Anywhere Anytime Anyplace Banking
- Banking at Convenience
- Dismantling of Physical Structure
- Goodbye to Traditional Instruments and Invitation to New Instruments
- Disappearance of Conventional Risk and Arrival of New Risks
- Leading to Currency-less Monetary system

VI. EMERGING BANKING TRENDS

The importance of technology in enabling the banking sector to deal with changing customer demands, improve operational efficiency, and enhance regulatory compliance is increasingly recognized by banks across the globe. In addition to the above said trends, the banking sector will also cope up the following global technology trends:

Global Trend 1: Focus on Next-Generation Remote Banking Solutions

The rapid rise in internet services and the increasing propensity of young consumers to use internet and mobile applications for carrying out transactions has made next generation remote banking solutions a key priority area for banks. The potential gains from leveraging the power of the internet encompass: personalized services for

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customers; enhanced customer experience through the use of online banking sites; improved productivity and usability of web based banking application through the use of rich internet applications (RIAs); and improved flexibility, scalability, and computing capacity.

Cloud computing and virtualization are other technologies which are seen as potential tools for lowering infrastructure, maintenance, and energy costs. Improved security, greater reliability, enhanced flexibility and functionality, and increased economies of scale are some other potential benefits which banks feel can be derived by harnessing remote banking solutions.

The major drivers for an increased focus on next-generation remote banking solutions are:

- Increased customer comfort level in using internet-based services for carrying out financial transactions.
- The impact of new regulations on traditional sources of fee income for the financial services industry means banks are looking to recoup some of the lost income by charging for web-based value-added services.
- The internet is increasingly being seen as a tool for data collection and facilitating cross-selling of products and services.
- Increased competition is pushing banks to look at remote banking solutions as a means of differentiating themselves from their competitors through increased customer retention.
- The expense of person-to-person interaction has pushed banks to offer more services to customers through the online channel.

Global Trend 2: Drive towards Core Banking Platform Replacement

Due to the financial crisis and the strain it caused on banks' financial resources, many long- awaited core-banking migration and replacement activities were put on hold. As the effects of the crisis subside, these pending replacement activities have started to gain priority, especially for the banks in North America and Europe.

The key drivers for the move towards core banking platform migration and replacement are:

- Increased need for business agility that will cut turnaround time for implementing new business rules and industry regulations.
- Heightened consolidation activity in the banking industry has made standardization and homogenization of merging banks' platforms necessary.
- Development of new and more agile core banking solutions and their adoption by competitors has made upgrading core banking systems a competitive necessity for banks.

Global Trend 3: Increased Role of Business Intelligence and Analytics in Transaction Monitoring

The transaction history of a customer contains valuable information about their purchasing and investment preferences. Though this transaction-related data is available with banks at an individual customer level, lack of appropriate business intelligence (BI) and data analytics capabilities has resulted in a less than optimal use of this data in providing customized rewards, products, and investment solutions to customers.

Key drivers behind this trend are:

- Compliance with regulations such as the Sarbanes-Oxley Act, Basel II, Basel III, Solvency II, and Dodd-Frank Act, which require solid data management, will drive compliance-related BI growth.
- BI tools that enable transaction monitoring and behavior analysis are key components of a larger, enterprise-wide fraud prevention solution—something all banks should have in place.
- BI is increasingly being seen as a key enabler for consumerisation developing products and solutions which are geared towards meeting specific consumer needs.

Global Trend 4: Focus on Enterprise Payments Hubs in Payments Processing

There is a growing realization in the industry that redesigning payment processing into payment hubs can enable banks to implement revenue- and cost-focused strategies. Banks operating in silos by payment types, geographies, and channels have resulted in operational inefficiencies and high costs. There is a need for finding a way to address the problems emerging from multiple payment engines, currently the norm at many large banks, by bringing down the number of payment platforms to a more manageable and efficient level. Establishment of payment hubs is being seen as a possible way of achieving this aim.

The key drivers behind the increasing focus on establishing enterprise payment hubs for payment processing are:

- Competition from banks and non-banks offering innovative payment services; e.g. mobile payment, contactless cards, and faster payments.
- Reduced revenues from commoditization of payments services and increased costs from redundant infrastructure.
- Globalization that has resulted in customer demands for consistent offerings and services across geographies.

VIII. CONCLUSION

The banking today is re-defined and re-engineered with the use of Information Technology and it is sure that the future of banking will offer more sophisticated services to the customers with the continuous product and process innovations. Thus, there is a paradigm shift from the seller’s market to buyer’s market in the industry and finally it affected at the bankers level to change their approach from “conventional banking to convenience banking” and “mass banking to class banking”. The shift has also increased the degree of accessibility of a common man to bank for his variety of needs and requirements.

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