

# Technological Transition Phases in Indian Banking Sector

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## ABSTRACT

With the onset of globalization the Indian financial sector is continuously seeing changes in present time. The increasing competition has made it necessary even for banking sector to customize its product and services to remain in the competition with other. Banking in India has been through a long journey and Banking industry in India has also achieved a new height with the changing times. With the technological advancements in the banking sector, banks has tremendously changed its working style according to change in technology in banking industry even modified its banking products and services. The challenges and opportunities faced by the Indian banking sector and the products and services that the banks offer present has paper identified in this present paper.

*Keywords: Banking, Financial Institution*

## 1. INTRODUCTION

A bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets. A bank links together customers that have capital deficits and customers with capital surpluses. John

paget has defined bank by stating: “Nobody can be a banker who does not –take deposit accounts,

- (i) take current accounts ,
- (ii) Issue and pay cheques and
- (iii) Collect Cheques –Crossed and Uncrossed for its customers”

By Kinley –Bank as “an establishment which makes to individuals such advances of money or other means of payments as may be required and safely made; and to which individuals entrust money or means of payment when not required by them for use.”

In 18<sup>th</sup> century, banking system was originated in India. General

Bank of India and Bank of Hindustan were the first bank in India. After that Bank of Bengal, Bank of Bombay and Bank of Madras are merged and converted it into Imperial Bank of India in 1921. Later on Imperial Bank of India was transformed into new bank (State Bank India). Reserve Bank of India (RBI) was nationalised through Reserve Bank (Transfer of Public Ownership) Act, 1948. In July 1969, 14 major commercial banks were nationalized, 6 more commercial banks were nationalized in 1980. In the year 1991, private banks were allowed and continued to operate in the banking sector of India.

## 2. STRUCTURE OF BANKS IN INDIA

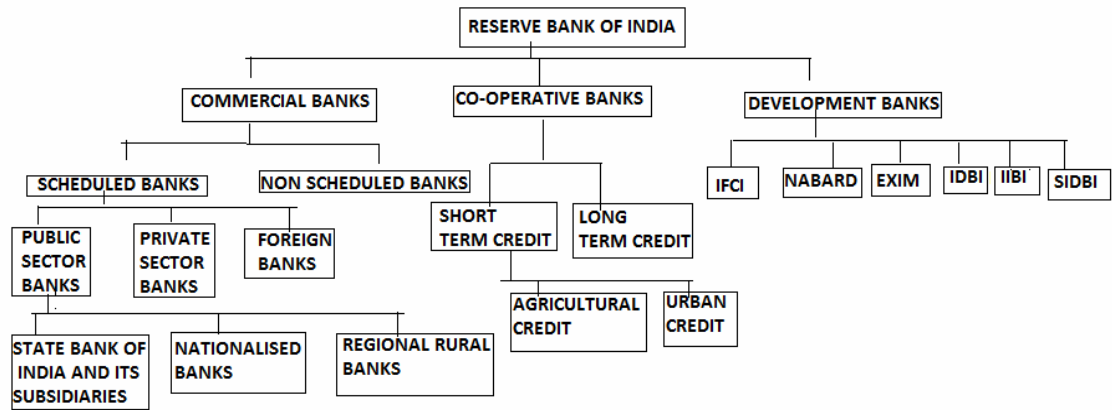


Figure-1

## 3. CLASSIFICATION OF BANKS IN INDIA

### 1) The RBI

The Reserve Bank of India occupies a significant place in the Indian Banking and Financial System. The Reserve Bank of India was established as the Central Bank of India on April 1935 and nationalised on 1<sup>st</sup> January, 1949. RBI, as an Apex Institution and regulates monitors and controls the financial system in India.

### 2) Commercial Banks

Commercial Bank acts as an integral part of the financial sector for an un-developed and developing country. Commercial banks play a very vital role in mobilizing the savings of the customers.

Commercial Banks are divided into two main categories:-

#### a.) Scheduled Banks:

Scheduled banks are those which are included in the Second Schedule of Banking Regulation Act, 1965. These banks have paid-up capital and reserves of not less than Rs. 5 Lakhs. Scheduled Banks are further divided into:-

- (i) Public Sector Banks
- (ii) Private Sector Banks

#### b.) Non-scheduled Banks

Non-scheduled banks are those which are not included in the Second Schedule of Banking Regulation Act, 1965.

### 3) Public Sector Banks

Public sector banks are those banks whose banking business is conducted by the Government and there major ownership is held by the Government. Public Sector Banks are sub-categorised into **three divisions**:-

## 5) Foreign Banks

### State Bank of India & its Associates (8)

SBI was setup in 1955 after transformation of Imperial Bank. After next 5 years, the princely States banks were introduced in SBI Group.

1. State Bank of India
2. State Bank of Bikaner & Jaipur
3. State Bank of Indore
4. State Bank of Travancore
5. State Bank of Saurashtra
6. State Bank of Mysore
7. State Bank of Hyderabad
8. State Bank of Patiala

### Nationalized Banks (19)

In July 1969, 14 large banks were nationalised by the Government of India. Later on in April 1980, six more banks were nationalised. Which increases the strength to 19 of nationalised banks in India.

### Regional Rural Banks (196)

RRB's were set up in 1975 on the recommendation made by head former M.Narasimham and these banks were governed by Regional Rural Banks Act, 1976. The main objectives are to provide loan facilities to small and marginal farmers to fascinate them in agricultural sector.

### 4) Private Sector Banks

The Narasimham Committee advised the government to allow banks to open up in the private sector to bring about competition and to increase productivity in banking sector.

Old private banks (23)

New private banks (8)

Foreign Banks are those banks which are registered or incorporated from outside India but their branches/corporate offices in other country.

## 6) Co-operative Sector Banks:

A **co-operative bank** is a financial entity which belongs to its members, who are both the owner's and the customers of their bank. Co-operative banks generally provide banking and financial services to their members like loans, deposits etc. These banks are registered under Co-operative Societies Act. Co-operative banks are collective efforts of:-

State Cooperative banks

Central co-operative banks

Primary Agricultural credit Societies

Land Development Banks

State land Development Banks

## 7) Development Banks

Development banks were instituted in India to provide credit for and development and promotion of Industries. These are special industrial financing institutions.

Industrial Finance Corporation of India (IFCI)

National Bank for Agriculture and Rural Development (NABARD)

Industrial Investment Bank of India (IIBI)

Small Industries Development Bank of India (SIDBI)

Industrial Development of India (IDBI)

Export-Import Bank of India (EXIM)

## 4. Table -1 LIST OF THE SOME PUBLIC ,PRIVATE & FOREIGN BANKS

Sl. No	NATIONALISED BANKS	OLD PRIVATE SECTOR BANKS	NEW PRIVATE SECTOR BANKS	FOREIGN BANKS
1.	UCO Bank	Vyasya Bank Ltd	UTI Bank Ltd	Bank of Ceylon
2.	Indian Bank	Karnataka Bank Ltd	HDFC Bank Ltd	Toronto Dominion Bank
3.	Bank of India	Catholic Syrian Bank	ICICI Bank Ltd	China trust Commercial Bank
4.	United Bank of India	Laxmi Vilas Bank Ltd	IDBI Bank Ltd	Fuji Bank
5.	Syndicate Bank	Federal Bank Ltd.	Yes Bank Ltd.	Barclays Bank
6.	Andhra Bank	Jammu & Kashmir Bank Ltd.	Axis Bank Ltd.	Development Bank of Singapore
7.	Corporation Bank	South Indian Bank Ltd.		American Express Bank
8.	Vijaya Bank	Bank of Madura Ltd.		Abu Dhabi Commercial Bank
9.	Punjab & Sind Bank	Dhan Lakshmi Bank Ltd.		Bank Indonesia International
10.	Oriental Bank of Commerce	United Western Bank Ltd.		
11.	Dena Bank	Bharat Overseas Bank Ltd		
12.	Bank of Maharashtra			
13.	Bank of Baroda			
14.	Canara Bank			
15.	Central Bank of India			
16.	Indian Overseas Bank			
17.	Allahabad Bank			

## 5. OBJECTIVES OF BANK

In economic development of any country, banking sector plays a very crucial role. The main objectives of banks is to provide savings as well as credit facilities to the customers.

It also helps in promoting and developing progressive banking practices and also to

implement new ideas and innovations in banking services, operations and procedures. There has been a tremendous change in banking system after 1991. Now, banks are providing various facilities like products and services to their customers. Today, the face of banking sector has totally changed and they are offering a variety of products and services.

## 6. VARIOUS PRODUCTS & SERVICES OFFERED BY BANKS

Table-2

PRODUCTS SERVICES	SERVICES
<p><i>Trade Finance :</i> Issuing &amp; confirming of letter of credit Drawing, accepting, discounting, buying, selling collecting of bills of exchange, promissory notes, drafts, bills of lading &amp; Other securities.</p> <p><i>Retail Banking :</i> Deposits Loans ,cash credit 7 overdraft Negotiating for loans and advances Remittances Book Keeping Safe Keeping</p> <p><i>Treasury Operations :</i> Foreign exchange</p>	<p><i>Advances</i> <i>Deposits</i> <i>Financial Services</i> <i>Foreign Services</i> <i>Money Transmission</i> <i>Savings</i> <i>Services of place or time-</i> ATM services, debit Cards, credit cards services, etc.</p>

Acquiring, holding, underwriting, dealing in shares, debentures, etc. Purchase & sale of bonds & securities Portfolio Management, etc	
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Source: Maira Singh and Neeraj Kr. Singh(2012), “Transition : The New Face of Banking Industry”, VSRD-IJBM, Vol. 2 (7), Pg. 349-355

## 7. RECENT ADVANCEMENT OF FACILITIES PROVIDED BY BANKS

### 7.1. Electronic Payment Services (E-Cheques):

New Technology developed in U.S. for electronic payment (i.e.) E-Cheques, which eventually replace the conventional paper ‘Cheques’.

### 7.2. Electronic Funds Transfer (EFT):-

EFT is a system, where any person who wants to make payment to another person/bank just have to give instruction to the bank to transfer funds directly from their own Account. RBI is the service provider of EFT facility.

### 7.3. Real Time Cross Settlement (RTGS):

RTGS was introduced in March 2004 in India. Through this system bank gives electronic instructions to transfer funds from one account to another account of another bank. RTGS is operated and maintained by RBI. Through this system, the amount is transfers within 2 hrs from one account to another account. It is efficient and fast transfer facility.

### 7.4. Electronic Clearing Service (ECS):

ECS is a retail payment system. It is used to make bulk payments/receipts. This facility is generally used by Company’s and Government Department for paying/receiving bulk payments.

### 7.5. Automatic Teller Machine (ATM)

Now, a day’s ATM is gaining its popularity in India, which enables 24\* 7 facility to customer to withdraw/deposit money at any time (upto certain limit)

### 7.6. Telebanking (Banking through Phone)

Automatic Voice Recorder machine is used for simple queries and transactions. This facility helps the customer to access information about their account through telephone

### 7.7. Mobile Banking

Mobile banking is a system that allows customers to conduct a sequence of financial transactions through a mobile phone. The customer can access account details on mobile using the Short Messaging System (SMS) technology.

### 7.8. Internet Banking

Internet Banking is also known as E-Banking or online banking. Internet banking involves use of internet for delivery of banking products and services. Customer can buy the product; make payments by just using internet. To access online banking, the customer first has to go to the financial institution's website, and then needs electronic payment gateway for the payment.

### 7.9. Dematerialization

Demat is dematerialization of shares, it is a process of converting customers securities from physical to electronic form in the depository system. It helps in trading and settlement of securities safely and quickly.

### 7.10. Credit Card

Credit Card issued by a financial company to their customer. Credit cards are a ‘pay later’ card or we can say short-term financing. Credit card holder has an option to purchase and it is the bank which pays on behalf of the card holder and later on cardholder has to pay the dues with some interest.

### 7.11. Debit Card

An electronic card issued by a bank which allows the customer to access their account to withdraw cash or pay for goods and services by using Debit card. This removes the need for customer to go to the bank to take the cash from their account; they can just go to an ATM or pay electronically. Debit card is a prepaid or ‘pay now’ card, where the cardholder pays immediately from his saving account by the use of the Debit card. The holder gets the advantage of not carrying huge cash.

## 8. VARIOUS OTHER VALUE ADDED SERVICES PROVIDED BY BANKS

Cash back facility on debit/credit cards on purchasing of various Accessories.

Free E- banking, M- banking.

High rate of interest for senior citizens on their deposits.

Issuance of first free personalized cheque book.

Free issuance of Debit/credit cards.

Free investment advisory services

Grant of redeemable reward points on use of credit cards which can be further used as an equivalent amount for future usage.

Concession in exchange on demand drafts & pay orders and commission on bills of exchange to their own existing account holders.

Low premium insurance schemes provided to the customer.

These value added facilities has increased the competition in the banking Industry.

## 9. CONCLUSION

Banking System is one of the primary key to economic development for every nation, as it is one of the important tools for financial planning. In a country like India whose population is second largest in the world, automatically the financial needs of this population would be more and these needs can be properly tapped by the banking sector. Banking sector (public, private and foreign banks) can encash to the fullest by providing banking opportunities not only to urban but also in rural areas. The banking texture has tremendously changed but requires more and more changes in upcoming decades.

Banks are not only providing traditional services like deposits, payment, providing loans but also there are advancement in the facilities like RTGS, Demat for the shareholders, E-cheques, ETF, ECS, E-banking and M-banking etc. The banking sector is transforming to provide better services and more facilities to customers and this also may be the reason for the increase in competition amongst the banks.

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