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Recent Trends in Indian Banking System

Prof. Dr. Balkrushna S. Ingle

S. P. M. T. M. Art & Commerce College, Chikhli. Dis. Buldhana

Introduction:
The banking system is central to a nation’s economy. Banks are special as they not only accept and deploy large amounts of uncollateralized public funds in a fiduciary capacity, but also leverage such funds through credit creation. India has a long history of both public and private banking. Banking in India originated in the last decades of the 18th century. The first banks were The General Bank of India, which started in 1786, and Bank of Hindustan, which started in 1790; both are now defunct. The oldest bank in existence in India is the State Bank of India, which originated from the Bank of Calcutta in June 1806, which almost immediately became the Bank of Bengal. This was one of the three Presidency Banks, the other two being the Bank of Bombay and the Bank of Madras, all three of which were established under Charters from the British East India Company. For many years the Presidency Banks acted as quasi-central banks, as did their successors. The three banks merged in 1921 to form the Imperial Bank of India, which, upon India's independence, became the State Bank of India in 1955

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The most fundamental way in which technology has changed the face of the Indian banking sector has been through computerization. Entry of new private sector banks and foreign banks offering most modern technology banking has forced public sector banks (PSBs) to address computerization problems more seriously in recent years. The pace of computerization has remained slow even though opposition from staff unions has softened. The Central Vigilance Commission wants 100 percent computerization in Indian banks to check frauds, delays, etc. The general perception is that in recent years, the prime focus of bank computerization has been less on the number of branches computerized but more on better connectivity, say, between the head office and regional offices of a bank with select branches. These are usually banks that handle large corporate borrowing accounts on one side and those that are in high deposit zones, on the other. While the private sector banks have been upgrading technology simultaneously with branch expansion, many of the top PSBs have completed automating their branches in the urban areas. The next step to total branch automation is networking of these branches. A major problem PSBs have to face, once IT implementation reaches its optimum level, is staff retention. While the private sector banks have been recruiting trained and experienced IT professionals, it may not be possible for PSBs to do likewise. They will have to train their existing staff to function effectively in the new environment. And once the requisite skills are acquired by employees, they may have trouble retaining staff. PSBs can only allocate limited capital resources to computerization. Newly opened private sector banks, foreign banks, and a few other Indian banks have started Electronic Money activities, which open up business opportunities but carry risks that need to be recognized and managed prudently. The Basel Committee on Banking Supervision has raised issues of critical importance to banking authorities in this regard. There is no evidence that these aspects are being looked into in India, yet there is a need for auditing firms to be aware of this issue. Despite recapitalization, the overall performance of PSBs continues to lag behind those of private sector and foreign banks. Questions of ownership, management, and governance are central to this issue. Under public ownership, it is almost impossible to draw a distinction between ownership responsibility and managerial duty.

A technological development closely related to computerization in bank branches is the adoption of the Core Banking Solutions. Core banking is a general term used to describe the services provided by a group of networking bank branches. Core banking consists of a networking process by which the servers of different branches of a bank are joined to a common server and henceforth an account holder may access, deposit, and withdraw money from his/her account from any of the branches of the bank. Bank customers may access their funds and other simple transactions from any of the member branch offices. Core banking systems are basically the heart of all systems running in a bank and it forms the core of the bank's IT platform. Amongst other functionalities, it provides the customer information management, central accounting and the transaction-processing functions, which by far are the most fundamental processes in a bank. Core banking solutions are banking applications on a platform enabling a phased, strategic approach that is intended to allow banks to improve operations, reduce costs, and be prepared for growth. Implementing a modular, component-based enterprise solution facilitates integration with a bank's existing technologies.

major technological development, which has revolutionized the delivery channel in the banking sector, has been the Automated Teller Machines (ATMs). It has gained prominence as a delivery channel for banking transactions in India. ATM means neither “avoids traveling with money” nor “any time money,” but certainly implies both. Further, introduction of automated teller machines (ATMs) enabled customers to do banking without visiting the bank branch. The first bank to introduce the ATM concept in India was the Hong Kong and Shanghai Banking Corporation (HSBC) in the year 1987. Now, almost every commercial bank gives ATM facilities to its customers. SBI is following the concept of 'ATMs in Quantity’. The Corporation Bank has the second largest network of ATMs amongst the public sector banks in India. ATM is designed to perform the most important function of bank. Mobile phones as a medium for extending banking services have off-late been attaining greater significance. The rapid growth in users and wider coverage of mobile phone networks have made this medium an important platform for extending banking services to customers. With the rapid growth in the number of mobile phone subscribers in India (about 261 million as at the end of March 2008 and growing at about 8 million a month), banks have been exploring the feasibility of using mobile phones as an alternative channel of delivery of banking services. Some banks have started offering information based services like balance enquiry, stop payment instruction of cheques. Making banks more customer-friendly has been high on the agenda of the Reserve Bank. Accordingly, a number of steps have been taken towards enhancing financial literacy and strengthening channels of information dissemination relating to banking services to customers. A full-fledged Customer Service Department was set up in 2006 by the Reserve Bank to enhance the pace and quality of provision of customer services, while providing customers a forum for redressal of their grievance.

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