

INNOVATIONS IN BANKING SECTOR

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ABSTRACT

There has been happening a revolutionary changes in the banking sector and these changes include phone banking, online banking, ATM, pay roll cards, credit cards, debit cards, cheque cards, smart cards, bill payments, investments in mutual funds, investment in bonds, under writing, banc assurance, life insurance policies, currency exchange services, tax payments, foreign exchange markets, trust services, inter national banking, syndicated loans, letters of credit various loans such as home loans, personal loans, education loans etc. The current world needs to adopt innovative approaches to every sector as they face the triple whammy of intensifying global competition, fast-developing technologies and diminishing world resources .In a rapidly changing world innovation is no longer an option it is a necessity. All these changes are attained by technological and regulatory changes. Technology is playing a crucial role in the banking industry today as the role playing by ship's engine in the journey of ship.

KEYWORDS: Electronic Banking, Online Banking, Phone Banking, Universal Banking

INTRODUCTION

Banks will have to change from today's traditional institutions if they want to survive in the networked modern world. They are currently introducing Internet banking to try to keep customers. Cash does not need to be stored in a bank if records are secured in databases anywhere. The customer may hold it on his own computer, or in a cyberspace vault elsewhere. With digital signatures and high network security, advanced software will put the customer firmly in control with access to any facility or service anywhere.

In fact, no one need hold cash at all, or even move it around. As the world becomes increasingly networked, the customer could thus retain complete control over the cash and its use, and could buy banking services on a transaction-by-transaction basis. The banks that survive will adopt the innovations according to the wants of the customers. Surviving banks should be able to compete for a share of the future market as well as anyone. Many of their customers will still value tradition and will not wish to use the better and cheaper facilities available on the network. So as always, it looks like there will be a balance.

Most banks however will adapt well to network existence and will either be entirely network based, or maintain a high street presence to complement their network presence. With technology and non-bank businesses providing new options for safeguarding and managing their finances, customers will continue to depend on banks only as long as banks can provide service and value that cannot be found anywhere else.

The future will require superior efficiency and operational excellence from all banks, while industry leadership will be attained by those institutions most adept at harnessing product, service and process innovation to anticipate and

meet customer needs. In this emerging environment, innovation will take many forms, including advances in products and services, markets, operational processes, customer intimacy, and new channel and diversification strategies.

A bank is an institution that provides financial service, particularly accepting deposits and lending money. But now the bank has grown into an institution providing many valuable services to its customers other than its fundamental functions. There are many traditional services offering by the banks to its customers. The type of services offered by a bank depends upon the type of bank and the country. The services provided traditionally include:

Accepting Deposit

Accepting deposit from savers or account holders is the primary function of bank. Banks accept deposit from those who can save money, but cannot utilize in profitable sectors. People prefer to deposit their savings in a bank because by doing so, they earn interest.

Advancing of Loans

Banks are profit oriented business organizations. So they have to advance loan to public and generate interest from them as profit. After keeping certain cash reserves, banks provide short-term, medium-term and long-term loans to needy borrowers.

Discounting of Bill of Exchange

Bill of exchange is a negotiable instrument, which is accepted by the debtor, drawn upon him/her by the creditor and agrees to pay the amount mentioned on maturity. Discounting bill of exchange is another function of modern commercial bank. Under this, banks purchase bill of exchange from holder in discount after making some marginal deduction in the form of commission. The banks pay the deducted value to the holders when traders discount it into the bank.

Cheque Payment

Banks provide cheque pads to the account holders. Account holders can draw cheque upon bank to pay money. Banks pay for cheques of customers after formal verification and official procedures.

Remittance

Remittance is a system, through which cash fund is transferred from one place to another. Banks provide the facilities of remittance to the customers and earn some service charge.

Collection and Payment of Credit Instruments

In modern business, different types of credit instruments such as bill of exchange, promissory notes, cheques etc. are used. Banks deal with such instruments.

The New Face of Banking

Today banks have implemented various innovative services in addition to traditional services such as savings and loans. Some of them are given below.

Universal Banking

The concept of universal banking refers to the provision of most or all financial services under a single, largely unified banking structure. Financial activities may include:

- Intermediation
- Trading of financial instruments, foreign exchange, and their derivatives
- Underwriting new debt and equity issues
- Brokerage
- Corporate advisory services, including mergers and acquisitions advice
- Investment management
- Insurance
- Holding equity of non-financial firms in the bank's portfolio.

Electronic Banking

In the wake of recent developments in information and communication technologies, majority of banking operations have been computerized by most of the commercial banks, both in the private and the public sectors especially in the last ten years and the processes still on for extension and up gradation of computerization of banks in India. The computerization is done for front-office operations involving interface with customers as well as back office operations involving internal house keeping (accounting and books balancing), external accounting and settlement with other branches and banks/institutions. Electronic banking provides a bouquet of new channels like internet banking, telephone banking, ATM banking – which are different from the traditional 'pen and paper' banking and which have made possible 'anywhere and anytime banking' and increased speed, accuracy and confidentiality of customers' transactions while enhancing customers convenience.

Globalization of Banking

In addition to universal banking and electronic banking, globalization has emerged as a prime mover in the banking system. This has come about as a result of the policy of integration of world economies. Any Foreign banks that wish to set up their branches in the rest of the world can open at anywhere they want. Their business has increased manifold, due to scores of Multinational Corporations setting up their manufacturing/trading bases in every corners of the world.

NEW PRODUCTS AND SERVICES OF MODERN BANKS

The new products and services offering by modern banking system can be summarized as follows

Phone Banking

Now, Banking is a phone call away. We can pay bills and transfer funds and buy and sell open-end mutual funds through phone. With a mobile phone and a banking application from the bank, we can deposit checks from anywhere, saving us the hassle and risk of bringing checks to the bank, mailing them, or feeding them into an ATM. Consumers can

execute a variety of banking transactions with mobile phones. Customers can check their account balances, make requests for payments, and even receive updates regarding their accounts on their mobile phones through sms.

Online Banking

Online banking (or Internet banking) is a term used for performing transactions, payments etc. over the Internet. This allows customers to do their banking outside of bank hours and from anywhere where Internet access is available. No special software or hardware is usually needed.

Online banking usually offers such features as:

- Availing Bank statements
- Electronic bill payment
- Funds transfer between a customer's own checking and savings accounts and another customer's account
- investment purchase or sale
- Loan applications and transactions, such as repayments

ATM (Automated Teller Machine)

An automated teller machine or automatic teller machine (ATM) (also called as cash machine, 'hole in the wall') is an electronic computerized telecommunications device that allows a bank's customers to directly use a secure method of communication to access their bank accounts, order or make cash withdrawals and check their account balances without approaching bank counter. Many ATMs allow people to deposit cash or cheques, transfer money between their bank accounts, top up their mobile phones' pre-paid accounts or even buy postage stamps.. ATMs allow the user to access cash at (or near) the point of purchase, rather than carrying cash on you at all times. It facilitates to when and where you want it. This reduces the danger of theft. ATMs also increasingly provide banking services like deposits and money transfers in addition to simple cash withdrawal.

Pay Roll Cards

Payroll cards are a specific type of smart card used by banks to facilitate salary payments between employers and employees. By using a bank as an intermediary, payroll cards enable an employer to load salary payments onto an employee's smart card. Employees can then access their pay even if they do not have a bank account.

Credit Cards

A credit card system is a type of retail transaction settlement. A credit card is different from a debit card in which the money from the user's account is removed during every transaction. But in case of credit card issuer lends money to the consumer. It requires the balance to be paid in full each month. In contrast, a credit card allows the consumer to 'revolve' their balance, at the cost of having interest charged.

Debit Cards

A debit card is a card which physically resembles a credit card. It is used as an alternative to cash when making purchases. However, when purchases are made with a debit card, the funds are withdrawn directly from the purchaser's current or savings account at a bank or credit union.

Cheque Cards

It is a card given to the customer by the bank. The customer must show it when he writes a cheque which promises that a bank will pay out the money written on the cheque. Under 'cheque cards' system, the card holder is given a card and a cheque book. He has to use the cheque, while purchases are made and the trader gets guaranteed payment. The customer does not get free credit. He has to keep sufficient balance in his account or the bank will provide overdraft up to a specified limit on interest payment basis.

Charge Cards

A small usually plastic provided by an organization with which one may buy goods from various shops. The full amount owed must be paid on demand. In credit cards, the card holders get credit or loan for payment of periodical bills when sufficient balance is not available in their accounts. In a charge card such credit facility is not available. The periodical bill amount is paid off by charging it to customers' account. A fee should also pay by the card holder to the card issuing institution.

Smart Cards

A smart card enables the cardholder to perform various other banking functions apart from credit purchases. For an example, with smart cards, we can draw cash from ATMs, we can verify entries in our accounts etc. This is possible because the card has an integrated circuit with microprocessor chip embedded in the card for identification purposes. The card can also perform calculations and maintain records. The credit card customers are typically extended an unsecured credit for at least 30 days. Beyond this period, the bank charges interest on outstanding bills. However, some cardholders may prefer to pay off their dues before the free credit period. Such cardholders are called convenience users.

Bill Payments

It's easy to pay your bills with the help of banks. Payments of bills of various services like electricity, telephone, public water etc. Some banks have agreements with over 600 companies for payment services. Payments of the customers can be made easily and conveniently over the internet, on the phone, at any branch or by using an ATM.

Online Bill Payment

Various Payments can be made by mobile phone. It is up to 40 percent cheaper than a bank visit.

Deposit Insurance

This means that if our bank goes under bankruptcy we will get our money back. This stands in stark contrast to the old "money in the mattress" model, where your capital is always at risk. In addition to deposit insurance, many banks and credit unions also offer access to other forms of personal insurance.

Investments

Investments for the clients are made by the banks in various forms. Major forms of investments can be titled as follows

- **Mutual Funds**

If we want attractive returns and are prepared to take a higher risk it is desirable to invest in mutual funds. Mutual

funds can invest in many different kinds of securities. A mutual fund is administered through a parent management company, which may hire or fire fund managers.

- **Investing in Bonds**

Government bonds and corporate debentures provide a regular and reliable source of income and it's easy to invest through Banks. We can buy and sell government bonds or corporate debentures through branches. A government bond is a bond issued by a national government denominated in the country's own currency. Bonds issued by national governments in foreign currencies are normally referred to as sovereign bonds. Government bonds are usually referred to as risk-free bonds, because the government can raise taxes or simply print more money to redeem the bond at maturity.

- **Under Writing**

In banking, underwriting is the detailed credit analysis preceding the granting of a loan, based on credit information furnished by the borrower, such as employment history, salary, and financial statements, publicly available information such as the borrower's credit history, which is detailed in a credit report and the lender's evaluation of the borrower's credit needs and ability to pay.

Bancassurance

Bancassurance is the term used to describe the sale of insurance products in a bank. The word is a combination of "banque or bank" and "assurance" signifying that both banking and insurance is provided by the same corporate entity. The usage of the word picked up as banks and insurance companies merged and banks sought to provide insurance, especially in markets that have been liberalized recently. Banks gives us a peace of mind with Banc assurance providing a chance to receive coverage and save money at the same time.

Life Insurance Policies

Banks offer various life insurance policies which give our family a financial stability. They provide both protection from insurance policies and great savings plan at the same time. Life insurance policies play a major role for investments.

Currency Exchange Services

A customer can now buy or sell notes, travelers' cheques and drafts in all major currencies at selected branches. Changing currency is fast and easy using the currency booths and currency exchange machines. The banks today have competitive rates with efficient service.

Online Tax Payment

An online government tax payment and e filing service is available seven days a week, 24 hours a day, using a financial institution's Internet site. It enables customers to submit RST return cards and payments via the Internet. This service is currently offered by many financial institutions to customers who have an account with them. There are many benefits such as Convenience and Reliability, Avoiding late payment of taxes by post-dating your payments, less paperwork for online tax payments.

Foreign Currency Exchange

Banks deal with foreign currencies. As the requirement of customers, banks exchange foreign currencies with local currencies, which is essential to settle down the dues in the international trade.

Consultancy

Modern commercial banks are large organizations. They can expand their function to consultancy business. In this function, banks hire financial, legal and market experts, who provide advices to customers in regarding investment, industry, trade, income, tax etc.

Bank Guarantee

Customers are provided the facility of bank guarantee by modern commercial banks. When customers have to deposit certain fund in governmental offices or courts for specific purpose, bank can present itself as the guarantee for the customer, instead of depositing fund by customers.

Trust Services

Banks act as an entity that can hold and manage assets for one or more beneficiaries over time, an agent for the trustee to invest funds according to the directions of the trustee, a bank can handle employee benefit programs, personal trusts and estates, and corporate trusts. Employee benefit programs include profit sharing plans, defined benefit plans, and defined contribution plans.

Payment Orders or Bankers Cheques

Payment orders or Banker's cheques are similar to demand drafts but are usually issued for payments within a city. These are usually valid for a shorter period of time compared to other instruments. Banks may charge a commission for issuing Payment Orders and Banker's cheques.

International Banking

At present, Banks have extended their activities beyond the national boundaries. The extension may take place in the form of borrowings as well as lending and it may take place through official or private or commercial channel. In the process of internationalization, the domestic financial institutions participate in foreign financial markets and the foreign institutions participate in domestic market to a significant extent.

A New Security Device

Some banks have started with a new security device. This device brings the confidence in mind of customers while using internet banking. This Security Device works as follows. Log on to our account on Internet Banking , we need to enter our existing username and password as usual, followed by the unique security code generated by the Security Device. The Security Device provides us an enhanced level of security to our Internet Banking account. The Security Device ensures that we can access our financial information online, in a completely secure environment.

Payment System

A Payment System is a mechanism that facilitates transfer of value between a payer and a beneficiary by which the payer discharges the payment obligations to the beneficiary. Payment Systems are the medium to transfer funds from

one person to another that facilitate businesses and economies. Payment systems help consumers to transfer funds to each other. Payment Systems can be broadly classified into Large Value Systems and Retail Payment Systems.

Large Value Systems:

It is an essential payment system which ensures the smooth functioning of the economy and the financial system. If this system fails, it could trigger disruptions or transmit shocks within the economy. These systems enable payments to be made electronically and instantly in real time. They offer speed, reliability, safety, convenience, cost and accuracy

Retail Payment Systems:

Retail payment systems generally cater to the payment of transactions related mainly to settlement of obligations arising from purchase of goods and services. The retail payment systems in any country comprise both paper based as well as electronic based systems. A person with a payment card of any kind is part of the retail payment system. At the retail level most transactions involve cash, cheques, cards or electronic transfers.

CHANGES IMPLEMENTED IN TRADITIONAL SERVICES

Opening Accounts

A savings, current or fixed account now opens up a world of new products and services - giving the customers access to our funds 24 hours a day, 7 days a week with zero balance. With a savings or current account in place we can choose ATM or Debit Card for everyday access to our funds.

Loans

No matter what we need, there is a loan or a line of credit to give us the borrowing power we want. Loans are provided by the banks in various forms like home loans, personal loans, mortgage loans etc.

CONCLUSIONS

As competitive forces intensify, it is clear that banks will have to become far more responsive to changing market conditions and emerging competitive threats. They will need to take dramatic steps to redefine their business models to assemble the best capabilities in the market and being specialized enterprises that focus on critical, differentiating business components within the firm. One bank which does not adopt new technologies and innovations cannot survive in the current competitive era.

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