INNOVATIVE BUSINESS PRACTICES IN BANKING INDUSTRY IN INDIA

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Abstract

Gone are the days when banking industry used to operate in a protected environment. Liberalisation, Privatisation and Globalisation have opened floodgates of competition. Opening of modern banks has also given banking industry new taste in competition. Bankers can no more bank on walk-in-business and relax in cozy offices. Information technology has not only enhanced customer's awareness level but has made them demanding. Their expectation level is galloping. Demands and priorities are changing every day. The influence of the Internet upon the choice and delivery of products and services has made the situation acerbic. Customers no more want age-old banking products; they cannot be fooled and taken for a ride by changing the wrapper of the product. Never in the history of banking has the power so firmly been in the hands of customers as it is today. The struggle for survival in the cut throat competitive market is the biggest challenge of the time. For facing competition there has to be determination and skill of innovation. This has led to the embracing innovative business practices by various banks in India. The present paper highlights the historical backdrop, evolution of banking industry and recent innovative practices in this sector in India.

Keywords: *Banking, Innovative Practices, New Product & Services, CRM*

Banking is an old as civilization itself. As early 2000 B.C. bibliomania had developed a system of leading and borrowing and holding money on deposits. In ancient Greece and Rome the practice of granting credit was widely prevalent. The origin of banking, in the modern sense, is traced to Italy during 13th and 14th centuries and grew quickly in importance and size. Since the banking activities were started in different periods in different countries, there is no unanimous view regarding the origin of the word 'bank'. The word 'Bank' is said to have derived from the French word 'Banco' or 'Baucus' or 'Banc' or 'Basque' which means, a 'bench'. In fact the early Jews in Lombardy transacted their banking business by sitting on benches. When their business failed, the benches were broken. Another common held view is that the word 'bank' might be originated from the German word 'Back' which means a joint stock fund. Of course, a bank essentially deals with funds. In due course, it was Italianized into 'banco', Franchised into 'bank' and finally Anglicized into 'bank'. Banking system occupies an important place in a national economy. Bank is indispensable institution in a modern society and forms the core of money market of the advanced countries.

According to modern concept, banking is a business, which not only deals with borrowing, lending and remittance of funds, but also important instruments for fostering economic growth. The Indian money market however is characterized by the existence of both unorganized and organized credit agencies that meets the credit needs of various sectors of economy. The moneylenders and indigenous bankers constitute the money market. The organized sector of money consists of reserve bank of India, commercial bank and co-operative banks. Indian baking industry is standing on three major pillars – nationalized, private and foreign banks. All the three are not only competing in financial matters but also in providing best customers services. In terms of sheer size and reach public sector banks i.e. nationalized banks stills domination our banking system, but in terms of services and facilities, private and foreign banks are having the upper hand. Customers get a whole range of banking and allied services at his doorstep. Private and foreign banks package helps the clients from "womb to tomb". They are very much particular about the customer's satisfaction. They believe in "delivering consistently and efficiently." The important function of a bank is accepting of deposits. The bank accepts the deposits on the following types as such Current accounts, Saving accounts, Fixed deposit accounts and Recurring deposits accounts.

The bank also provides loans and advances of worthy borrowers. Bank provided following loans and advance as such Cash credit, Overdrafts, Loans and advances for car, home, education equipments and personals etc. and discounting of bill of exchange

The bank invested money against various securities like government paper, movable and unmovable property, industrial securities, personal security etc. Credit creation is also one of the most important functions of banks. Credit creation means make the money more and more. Bank also creates credit from the stock exchange market. Collection of bills, cheques, demand drafts, and dividend warrants, there are also performed by banks. Bank also makes payments for tax's, insurances and other instalments. In modern time banks are provided e-rail and booking on lines also. Now people can't be suffered the long rows and rushes. Banks are also work as trustee, executors or legal attorneys for their customers. Banks can also buy and sell the securities and shares on the behalf of their customers. They also provide remittances facilities by making arrangement of telegraphic transfer, mail transfer etc. they deal in foreign exchange, underwrite shares and debentures, issue letters of credit, provides safe deposits vaults also. Indian commercial banks are now standing in direct competitions with the private banks. The day-to-day functioning of these private banks is carried with the help of computerization leaving no option to our commercial banks but to gear up to make use themselves by appreciating computerization for ensuring satisfaction of their customers. Similarly, these private banks also forced Indian commercial banks to introduce the facility of ATMs, which helped the latter banks to provided 24 hours services giving easy access to cash. Due to rising competition from the private banks operating in India, many natural funds and debit cards, credit cards etc. have started adopting aggressive marketing strategies.

History of Indian banking sector: Without effective banking system in India it cannot have a healthy economy. The banking system of India should not only be hassle free but it should be able to meet new challenges posed by the technology and any other external and internal factor. For the past three decades India banking system has several outstanding achievements to its credit. The most striking is its extensive reach. It is no longer confined to only metropolitans or cosmopolitans in India. In fact Indian banking system has reached even to the remote corners of the country. This is one of the main reasons of India growth process. The government's regular policy for Indian bank since 1969 has paid rich dividends with the nationalization of 14 major private banks of India. Not long ago an account holder had to wait for hours at the bank counters for getting a draft or for withdrawing has own money. Today he has a choice. Gone are days when the efficient bank transferred money from one branch to other in two days. Now it is simple as instant messaging or dials a pizza. Money has become the order of the established in 1786. From 1786 till today, the journey of Indian banking system can be segregated into three distinct phases. They are Phase-1 early phase from 1786 to 1969 of Indian banks, Phase-2 nationalization of Indian banks and unto 1991 and Phase-3 phase of Indian banking sector reform after 1991.

Phase-1 from 1786 to 1969: The General Bank of India was set up in the year 1786. Next come Bank of Hindustan and Bengal Bank. The East India Company established Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) as independent units and called it presidency banks. These three banks were amalgamated in 1920 and Imperial Bank of India was established which started as private shareholders bank, mostly Europeans shareholder has share in this. In 1865, Allah bad Bank was established and first time exclusively by Indians. Punjab National Bank was set up in 1894 with headquarter at Lahore. Between 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda and Bank of My sore were set up. Reserve Bank of India came in 1935. During the first phase the growth was very slow and banks also experienced periodic failures between 1913 and 1948. There were approximately 1100 banks, mostly small. To streamline the functioning and activates of commercial banks, the government of India came up with The Banking Companies act, 1949 as per amending act of 1965 (Act no. 23 of 1965). Reserve Bank of India was vested with extensive powers for the supervision of banking in India as the central banking authority. During those day's public has lesser confidence in the banks. As an aftermath deposit mobilization was slow. Abreast of it the savings bank facility provided by the Postal Department was comparatively safer. Moreover, funds were largely given to traders.

Phase-2 Nationalization of Indian banks and up to 1991: In 1955, government nationalized imperial Bank of India with extensive banking facilities on a large scale especially in rural and semi-urban areas. It formed State Bank of India to act as the principal agent of RBI and to handle banking transactions of the union and state governments all over the country. Seven banks forming subsidiary of State Bank of India was nationalized in 1960 on 19th July, 1969, major process of nationalization was carried out. It was the effort of the then prime minister of India Mrs. Indira Gandhi. 14 major commercial banks in the country were nationalized. Second phase of nationalization Indian Banking sector reform was carried out in 1980 with seven more banks. This step brought 80% of the banking segment in India under government ownership. The steps taken by the government of India to regulate banking institutions in the country are 1949: enactment of banking regulation act, 1955: nationalization of State Bank of India, 1959: nationalization of SBI subsidiaries, 1961: insurance cover extended to deposits, 1969: nationalization of 14 major banks, 1971: creation of Credit Guarantee Corporation, 1975: creation of Regional Rural Banks, and 1980: nationalization of seven banks with deposits over 200 cores. After the nationalization of banks the branches of the public sector banks India raised to approximately 800 % in deposits and advances took a huge jump by 11000 %. Banking in the sunshine of government ownership gave the public implicit faith and immense confidence.

Phase-3 Indian banking reforms after 1991: This phase has introduced many more products and facilities in the banking sector in its reforms measures. In 1991, under the chairmanship of Mr. Narasimham, a committee was set up buy his name, which worked for the liberalization of banking practices. The country is flooded with foreign banks and their ATM stations. Efforts are being put to give a satisfactory service to customers. Phone banking and Net banking is introduced. The entire system became more convenient and swift. Time is given more importance than money. The financial system of India has shown a great deal of resilience. It is sheltered form and cuisses triggered by any external macro economics shock as other East Asian counters suffered. This is all the due to a flexible, exchange rate regime; the foreign reserves are high the capital account is not yet fully convertible and banks and their customers, have limited foreign exchange exposure.

Recent Innovative Practices in banking sector

During the recent past the retail character of banking operation has become more predominant especially among the new private sector and foreign banks. Retail banking of mobilizing deposits from individuals and providing loan facilities to them in the form of home loans, auto loans, credit cards etc. is becoming popular. Banks with vision and insight are trying to woo this market although a series of innovative addition to their products, services, technology and marketing methods.

New Product & services

Credit cards: In the credit card scheme, the holder buys goods or avails of services anywhere without the worry of carrying hard cash in his pocket. The payment is made to the card issuing bank. A credit limit is fixed for individual card holder with an option of a revolution facility as may be permissible by the bank r required by the card holder. Either one makes the full payment or pays the minimum stipulated amount on receipt of the monthly stipulated of accounts or bill from the issuers. Deferring the payments attracts a credit card.

There are cards termed as GOLD, SILVER and CLASSIC/ EXECUTIVE CARD. Naturally the gold card offers better features, high insurance covers and more facilities. Gold card have the highest fees and services charges associated with them. In the rural market some special credit cards are provided for the development of small scale business and farmers. (i)KCC: Kisan Credit Card, (ii) General credit card (GCC), (iii) Savrojgar Credit Cards These credit cards available the amount to the farmers for purchasing equipments, land reforming. The silver/ classic and executive cards have variations relating to the number of additional services and types of services made available to the card holders.

Global card: This is the latest in the market, which enables the card holders to use the card in any country including the country where the card has been issued. One can spend in any foreign currency and settle the due in medium of local currency. The credit limit is based on the BTQ (basic travel quota).

Charge card: Under this system, although a fixed credit limit is set for the card holders, the revolving facility is not allowed. The entire current usage that has been billed, is to be paid in full within the stipulated due date. Additional charges are applied on defaults.

Debit card: All purchases are debited on line from the card holder account on these cards. This concept is infant stage in India. Who have the on-line connection with in their own network with merchants sits, only those issues are issued such cards. It works as a replacement of cash for the card holders.

Smart card: It is a prepaid card. It is similar to the VCC (virtual calling cards) and cash or SIM cards issued by cellular phone companies. In this system, the card holder purchases a card and get exhausted on use till it become nil. The card operates with a secret PIN number given to the cardholder. This card can be recharged.

ATMs: Several public sector banks and almost all the private banks have installed ATMs (Automatic Tellers Machines) at licensed branches and extension counters where clients can withdraw cash 24 hours upon a certain limit. Besides cash withdrawals, ATMs allow depositing cash and cheques, dividend warrants and other instruments. One can even chance the PIN (personal identification number) directly on ATM. Now some banks have put up drive in ATMs and off sites ATMs for added customers convenience.

Inter city banking: Now private sector banks provided its account holders the facilities to operate their accounts from any of it branches. It mean the account holder have no need to suffer a long distance. The account holder operates his accounts, loan payments etc on a near most branch.

Net Banking: Net banking means banking on internet. It is made banking easier. Private Banks provides net banking free of cost. You can now bank from the comfort of your bedroom or from a hotel room while on vacation. You can check your balances, make and stop your payments, make cheques status inquiry, make a cheque book request and access to your demat account on internet.

Mobile Banking: Now time while be change, mobiles take a strong place in market. Everyone has a mobile in his pocket. Different mobile companies offered you the different schemes and facilities. Now you can access your bank accounts on your mobile phone screen, anytime, anywhere. You can do your all banking transactions sitting in a restaurant, in your home or even in your car. You can make just one SMS and do your banking activities.

Demat account: If you are a share holder or interested in share market or think about purchasing or selling the shares. Banks helps you for all these works. Now banks purchased or sale your share as your order or request. You can only inform about your decisions. Now you can avoid multiplications, duplications and pilferage of share certificates. By opening a demat account, you can protect your securities from damage, loss and theft. Demat account stands from dematerialization of accounts.

On-line banking services: In on line banking services you did your work at home. You can make your payment at home. There is no need to go market. There are many on line services which were provided by on line as such On line tax payments, On line bill payments of phone or electricity, On line reservations in railway or airway and On line shopping's.

Emphasis on Customer Relationship Management (CRM): Customer relationship Management is the most important factor in the retention of the customers when each and every bank is providing the same services. The banks are spending more on the customer delight and up gradation of the services. When all the banks are providing almost the same products and services, CRM is very much required in the sector.

Mergers, Acquisitions and Takeovers: Merger, acquisitions and takeover are the trends in the banking industry now a day across the globe as the competition have opened up in the industry. The banks are increasing their size with the organised and unorganised growth by adding up new customers through new products and schemes as well as acquiring smaller banks in the fray.

Moves to Global Markets: Banking Industry is becoming global now days with the more and more banks opening their branches in India as well as Indian banks are also opening their branches abroad. The banks are expanding their horizons to the new untapped area where they can use their expertise to tap the market.

Future of banking in India

The Indian banking has come of age in the past few years. Overall, it has been a period when banks have thrived. We have seen the growth of some Indian banks to phenomenal levels. But there's still a fair way to go before an Indian bank can truly announce its global arrival. The possibility of opening up of Indian banking in 2009 should act as a catalyst for action, ushering in a transformational phase of organic and inorganic growth. The imperatives that are going to be the drivers are undergoing a transformation. Shaping up of a bank internally with respect to target markets and customers, business models and risk management is going to impact the future tremendously. At external level consolidation is the word, with changes in landscape due to mergers and acquisitions being undertaken across the industry. The emerging Indian rural market is playing a big role in charting out a trend for the growth of banks. With the economy surging, the income levels have increased in rural areas. Agricultural income is on the rise. Rural market is not just for micro credit, it also possess tremendous potential for commercial banking. Till now rural banking was the forte of public sector banks, which was more of an obligation than a well thought out banking initiative for the same.

With the growth in the Indian economy expected to be strong for quite some time-especially in the Services sector, the demand for banking services, especially retail banking, mortgages and investment serv-ices is expected to be strong. Mergers & Acquisitions, Takeovers, Asset sales and much more action is expected to happen on this front in India. Banking in India is considered as fairly mature in terms of supply, product range and reach-even though reach in rural India still remains a challenge for the private sector and foreign banks. Even in terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets-as compared to other banks in comparable economies in its region.

The Reserve Bank of India is an autonomous body, with minimal pressure from the government. The stated policy of the Bank on the Indian Rupee is to manage volatility-without any stated exchange rate-and this has mostly been true. Bank credit growth has marginally slowed down to 26 percent recently, after growing at around 30 percent for three years in a row. This is the most enticing factor for for-eign players. Witnessing huge foreign capital inflows lined up for the Indian markets, Indian banks too have geared themselves to infuse more money in the banking business. ICICI bank has recently garnered approx. Rs. 20000cr. markets through a combination of equity issues both in the domestic (Rs. 10000cr) and foreign (Rs. 10000cr - through ADR) markets.

Conclusion

To sum up, the coming years for Indian industry will be a transition not only towards the 21st century, but marked by a major shift from a seller's to a buyer's market and even more importantly from local area to global operations. These changes will compel a major re-engineering of the market forces and players. We shall be witnessing a large number of Indian companies embarking on restructuring. This will lead to number of mergers, acquisitions, take-overs, disinvestments and buy-backs. To conclude new concepts, new benchmarks, new forces, are now transforming Indian industry. The rewards are getting higher but so are the risks. The future focus should be: Growth based on calculated risks.

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