INNOVATIVE PRACTICES IN BANKING MANAGEMENT AND THEIR ROLE IN ECONOMIC REVIVAL

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Abstract

Banking system occupies an important place in nation's economy and is indispensable in modern society. It plays a pivotal role in the economic development of the country. India is on rapid economic growth path. One of the major contributors to this growth is banking sector. In the last two decades the country has witnessed a phenomenal expansion in the geographical coverage and functional spread of our banking and financial system. Globalization has brought about structural changes including banking services. With the entry of information and communication technology, significant changes have been brought in banking system. The Indian banking industry is currently worth of USD 1.31 trillion. Banks are now aggressively utilizing the latest technologies like internet and mobile devices to carryout transactions and communicate with the masses. The banking industry is entering several new activities in the areas of merchant banking, leasing, housing finance, venture capital and other financial services in general. The range of services provided by our banks stretches from rural finance to international banking, from traditional services to innovative services. Hence contributing towards economic development of the country. The methodology adopted to study this paper is based on secondary data. This research paper highlights upon innovative banking services offered by Indian banks and its contribution to the economic development of India.

Key Words: *Innovative banking, Information and communication technology, Mobile banking, Internet banking, financial services.*

Evolution of Banking Institutions

Origin of the Word Bank

According to some economists, the word 'Bank" was derived from the German word 'BANC' which means a joint stock firm. While others say that it has been derived from the Italian word BANCO which means a heap or mound. As a matter of fact, at the time of establishment

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of Bank of Venice in 1157, the Germans were influential and hence, perhaps the word 'Banc' or 'Banco' was used by Italians to denote the accumulation of securities or money with a joint stock firm which later on with the passage of time came to be known as 'Bank'.

Development of Banking Institutions

The business of banking is as old as the civilization itself. As early as 2000 B.C, the Babylonians had developed a system of banks. They used their temples for lending at higher rates of interest against gold and silver which had been left with them for safe custody. Around the same time, the Greek temples were used as depositories for people's surplus funds and these were the center of money lending transactions.

In India, the ancient Hindu scriptures refer to the money lending activities in the Vedic period. During the era of Ramayana and Mahabharata, the banking had become a full-fledged activity. During the Smrity period which followed the Vedic period, the business of banking was largely carried on by the members of Vaish community. The banker in this period performed many of the functions which modern banker performs these days accepting deposits, granting of advances, acting as banker to the state and issuing and managing currency of the country.

The banking largely meant money lending and it was restricted to families working as sole proprietary firm. The bank of Venice founded in Italy in 1157 was the first public banking Institution.

It was only in 19th Century that the modern joint stock commercial banking system developed in most of the countries. In India, the joint stock companies Act 1850 was the first legislative enactment which permitted the corporate sector to come into the banking business as per the provision of this Act. The first bank to be established under this act was the Oudh Commercial Bank in 1881 followed by Punjab National Bank in 1895 and People's Bank in 1901. After independence of the country in 1947, keeping in view the necessity of regulating rapidly growing business of banking institutions and their organizational problems, a separate act known as the Banking Regulations Act, 1949 was enacted. The banks now are no longer considered as mere dealers in Money but as institutions at the service of the people expected to make effective use of their saving for promoting maximum social good.

Indian Banking System

Banking industry in India has transcended a long path to assume its present stature. It consists of two parts:

a. The unorganized or indigenous sector.

b. The organized or modern sector.

The history of developments in Indian Banking System can be studied over two periods:

1. Pre- Independence Period.
2. Post- Independence period.

1. Pre – Independence period

Banking institutions during this period primarily consisted of indigenous banks, money lender, nidhis, loan offices etc. These institutions are to some extent still popular in rural and semi urban area. In 1850, the passing of the Joint stock companies Act greatly helped in the establishment of many commercial banks. Later on in 1921, the Imperial Bank of India and in 1935 the Reserve Bank of India were also established.

Indigenous Bankers:

They are individuals or firms dealing in hundis and sometimes accepting deposits as well. They continue banking with trading and commission business. They belong to different caste groups operating in specific areas like Multanis and Marwaris operate in Mumbai, Kolkata and Rajasthan, Chetties in Chennai etc.

They enjoy a prominent place among the various agencies providing finance to trade and industry by providing both short term and long term loans against all kinds of securities like gold, silver, land, promissory notes, hundis etc.

Money Lenders

Money lenders have existed side by side with the indigenous bankers who essentially finance consumption loans in the rural areas. They have a better personal report with their clients and grant both secured as well as unsecured loans. The security may be land, house or even crops to be grown.

Due to all round industrial and technological developments and competition by the co-operative banks, the money lenders have more profitable avenues of employment and have given up their business in the changed environment.

Nidhis, Chit Funds and Loan Offices

Nidhis are registered as companies under the Companies Act and are semi- banking institutions who raise funds either through deposits in monthly installments or through withdraw share capital.

Chit funds are registered as companies or societies under the Companies Act or the Societies Registration Act, they work on a small scale and raise funds from small number of persons and lend them to their members.

Loan officers are mostly found in West Bengal who raise their funds through deposits and lend money to Zamindars and their tenant cultivators.

European Banks

In the last quarter of 18th century, English agency houses combined banking with their trading activities. The earliest European Bank was started in 1770 in the name of Bank of Hindustan. In order to cater to the needs of the foreign rulers, a number of quasi government banking institutions were established.

They included presidency Bank of Bengal 1806, presidency bank of Bombay (1840) and presidency bank of Madras (1840). The primary objective of these banks was to cater to the needs of alien rulers. In 1921, all these banks were amalgamated to constitute Imperial Bank of India.

Imperial Bank

The Imperial Bank was empowered to manage the clearing house and the government funds.

Reserve Bank of India

The Hilton Young Commission, in 1926 recommended the establishment of a separate central bank in the country known as Reserve Bank of India. It was established in April 1935 as the central bank of the country.

2. Post Independence period

The post independence period has witnessed a massive growth of the Indian Banking system. First step taken in this direction was nationalization of Reserve Bank System in September 1948 It was increasingly emphasized that the policy pursued by Reserve Bank for regulating and controlling the banking business in the country should sub serve socio-economic objectives as laid down by the government.

Reserve Bank of India

As the central banking authority, its functions include issue of bank notes, functioning as government's bank, banker's bank, custodian of foreign exchange reserves, setting up of and development of specialized financial institutions like IFCI, IDBI, NABARD etc.

State Bank of India

The Imperia1Bank of India was brought under public ownership and was converted into State Bank of India on 1st July 1955 with the objective of facilitating the extension of banking in rural and semi urban areas. By 1959, eight banks in the princely states were owned by State Bank of India and was popularly known as State Bank Group.

Social Control on Banks

The objective under this was to ensure purposeful distribution of available credit in terms of accepted investment priorities and correspondingly more efficient mobilization of savings.

Nationalisation of Commerecial Banks

1. First phase of Bank Nationalization: The scheme of social control was found to be unsatisfactory. The government felt that the public ownership of the major banks will help in the most effective mobilization and developments of national resources so that the objective can be realized with a great degree of assurance. Hence 14 major Indian scheduled Commercial Banks each with a deposit of Rs 50 crore or more were nationalized on 14th July 1969.

2. Second Phase of Bank Nationalization: On April 15th 1980, the president of India promulgated for transferring the ownership of six more Indian private sector banks each having deposits of Rs 200 crores or more as on 31st March 1980 to further control the heights of the economy.

Banking Innovations

Globalization of the economy has resulted in modernizations and innovation in Banks. Indian banking sector has undergone a huge transformation since 1990. In the 1990's greater emphasis being placed on technology and innovation. The business of banking especially financial service I retail banking is undergoing a sea change, as business shifts increasingly to the online environment. New concepts like personal banking, retail banking, and total branch automation were introduced.

Why do we need Technology in Banking?

- The increasing number of customers transacting online would move the 'market place' to 'market place' where banks would be forced to expand their product range to competitor's product, while rapidly innovating their own value added products.
- Intense competition between banks which is more severe in these adopt modern technology.
- Technology and more specifically the internet has evolved into an essentials access channel. The internet offers a cost effective means of innovating, publicizing and delivering services to the customer as well as to maintaining customer relationship.

Most of the banks, today use internet as their global expansion platform offering an increasing away of financial service online.

Technological innovations in Indian Banking Services

A. E-Banking services
B. Retail Banking
C. Plastic money and E-Money

A. E-Banking services – are the services providing banking products and various service through e-channel such as internet/mobile banking, e-banking or online banking. In simple words, it does not involve any physical exchange of money, but its all done electronically, from one account to another account using the internet.

From a personal computer, you can access your bank account information and perform many banking functions like transferring money, making payment etc. E-banking services of banks-are

Real Time Gross settlement (RTGS)

RTGS is a software package which provides an online settlement of

payments between financial institutions on same day. The RTGS system now allows high value customer payments to happen through this system.

B. Retail Banking

Retail Banking refers to service provided to individuals, focusing on individual needs for different kinds of financial services in an integrated manner. It is providing increasing level of services and increased access by offering value added services to customers.

Retail payment systems are required primarily for purposes such as payments for goods and services, bill payments, cash payment and so on.

Retail payment system facilities can be classified in to two categories:

- Paper based payment system.
- Electronic clearing and settlement

1. Paper based payment system in India are as follows-
    a. MICR – Magnetic Ink Character Recognition
    b. Speed clearing of cheques drawn outside (CBS)
2. Electronic clearing and settlement
    a. ECS – Electronic Clearing Service.
    b. EFT – Electronic Fund Transfer.
    c. NEFT- National Electronic Fund Transfer.

3. Plastic Money and E- Money

Plastic money refers to the substitution of currency at the time when payment normally made of plastic. The most important advantage of plastic money is protection to the user from the risk of carrying cash.

The prevalent types of Plastic money are

a. Credit Card
b. Debit Card
c. Other Payment Channels
    - Mobile Banking
    - Prepaid Payment Instruments

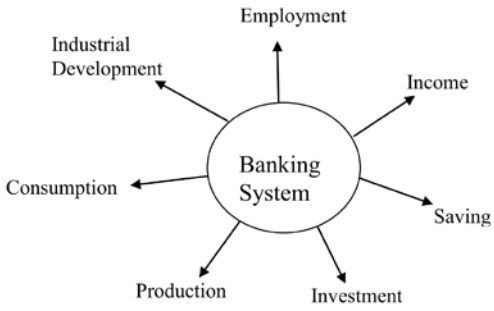
Banking Innovations and Economic Development Of India

Since the nationalization of some big commercial banks in India, there has been a great surge in the banking industry throughout the world with the growing number of banking offices. The banking business today has become highly critical and competitive between various class of banks in offering a greater verity of service naturally and internationally. The main aim of modernizing banking system is to improve bank operations with a view to maintaining high standards in banking. In India class banking has given way to mass banking.

Innovation in banking system plays a very important role in the economic development of nation. Economic development is a dynamic and continuous process. Banks are the main stay of the

economic progress of country. Because, the economic development highly depends upon the extent of mobilization of resources and investment and on the operational efficiency of the various segments of the economy. The major roles played by the banks in the development of economy of a country can be summarized as follows.

Economic Development through Banking System



From the above circle of development, one could understand that the banking system functions as nerve centre of the entire economic system of the country.

Importance of Banking Innovations and Economic Development

Banks plays a very important role in the economic development of every nation. They have control over a large part of the supply of money in circulation. Through their influence over the volume of bank money, they can influence the nature and character of production in any country.

In the process of economic development, the significance or contributions of modern banking system can be summarized as follows:

1. Capital formation:

The capital formation depends upon saving of various categories of people organizations. Banks offer facilities for saving and thus encourage the saving habit and industry among people. The banks with modern technology have designed a variety of novel schemes to attract the prospective customers to save with their banks.

For example: The Percentage of households availing banking service has increased from 35.5% in 2001 to 58.7% in 2011. As of May 2016, a total of 21.81 accounts have been opened under Pradhan Mantri Jan Dhan Yojana. Banks collect the small surplus and scattered savings of the people and make them available for productive purpose in large sums of finance.

2. Strengthens the organized sector of banking system:

Advancement in technology brought several changes in the operation system of banks. They are reaching more people with ICT system. Thereby they are strengthening the organized sectors and unorganized sectors for the overall economic development.

3. Helping agriculture and small scale industries:

The development of country not only depends upon the industrial development

but also on the development of an agriculture and small scale and cottage industry. Small scale industries provide employment opportunities and goods manufactured by their sector are also exported out of India. Agriculture is sector which contributes around 17.9% of GDP of our country. The banks cater to the financial requirement of these sectors which leads to the economic progress of the country.

4. Bench Expansion:

Development in science and technology has definitely contributed to branch expansion of to rural and other areas, there by they are rendering banking service to remote areas. It has increased from 79,779 branches in 2009 to 1.3 Lakh branches in 2015.

5. Regulation of the flow of national income:

Banks regulate the flow of national savings into productive channels. They ensure the diversions of national savings into the productive purpose.

6. Maintaining balance of trade:

Through properly demised banking system the country can promote export through easy and timely credit facilities to exporters, quickly obtaining money from foreign buyers of goods. This will help to maintain the balance of trade in a favorable position.

7. Other Factors: with the advancement in sciences technology and digitalization following advantages

a. Improved customer experience.

b. Reduction of the costs for banking and customers as well as by using ATMs cashless transactions.

c. With more digital data available with banks, they can take data driven dynamic decisions by using digital analytics.

d. Technology is non-discriminatory everyone will be treated same at banks.

e. Digitalization reduces human error.

f. Need of handling large amount of cash will be reduced.

g. Rural and urban gap will be eliminated.

h. With the increasing cashless transactions fake currency threat will be reduced.

CONCLUSION

To conclude, innovations in banking sector in India did a wonderful job. Banks are not just a part of our lives but have significant role in our daily lives. For many, day will not end without at least single financial transactions. Thus banks always try to adopt latest technologies to benefit the customers. The developments in telecommunication technology and electronic data processing have

contributed to remarkable changes in banking sector. With the increasing usage of smart phones, digitalization of banking sector is inevitable to catch-up the increasing capitalisms of the world. It indeed reduced human errors and increased convenience and has significantly contributed towards economic development of the country. But the cyber threats are on the rise, banks must be very careful and should be prepared to handle such cyber-attacks.

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