INNOVATIVE PRACTICES IN BANKING AND THEIR ROLE IN ECONOMIC REVIVAL OF INDIAN AGRICULTURAL SECTOR

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Abstract:

Innovation means a new idea, method or device. Ex: Technology. Through Technology we find ways to get better results with less cost, efforts and time. The concept of Innovation can be put to use in every paradigm of life; it may be Individual, Institution or Society at large. In today's Competitive business world the concept of Innovation has become a life-line for survival and growth. As Banks and Financial Institutions constitute the back-bone of every economy, the prosperity of each sector of the economy depends on the support systems installed by the banking system. A sound financial system ensures the well-being of every sector and institution of the economy. Agriculture is one of the Important and Largest Sector of the Indian Economy with majority of the population associated with it. The Indian Banking system from post-independence period to the present period has showing vibrant and tremendous innovative practices in its systems and operations towards providing Loans and Advances and other ancillary services to the Agricultural sector. This study focuses on their impact and role in Economic revival.

1.0 Introduction:

Since 1969, tremendous changes have taken place in the banking industry. The banks have shed their traditional functions and have been innovating, improving and coming out with new types of the services to cater to the emerging needs of their customers. Banks also recognize the importance of various sectors of the economy and serving their crucial needs society have undergone so many changes. In the list of Operating Innovation technology- "Number of branches", Number of Employees", "Amount of Loans disbursed" ,"Anywhere Banking,

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"Telebanking", "Internet Banking", "Web Banking", "E-Banking" etc., and Policy Innovating practices- like Mergers, Core Banking Solutions, Outsourcing, Customer Relationship Management, and Basel II accord etc., are some of the innovative strategies which are being used by the Indian Banks to improve their efficiency and competitiveness to meet the challenges to the globalization.

Massive branch expansion in the rural and underdeveloped areas, mobilization of savings and diversification of credit facilities to the either to neglected areas like small scale industrial sector, agricultural and other preferred areas like export sector etc. have resulted in the widening and deepening of the financial infrastructure and transferred the fundamental character of class banking into mass banking.

Today's business focusses not on customer service but on customer delight[1]. The task of acquiring new customers and retaining the existing ones assumes an unparalleled significance especially in the light of competition of banks and financial institutions.

Broadly Innovative practices for our study can be divided into 2 groups

1. **Policy Innovative strategies. (By Government)**
2. **Operative Innovative Strategies: (By Institutions)**

Policy innovative strategies by the Government:

Policy Innovative strategies of the government can be seen with legislations and committee implementations that were put in to boost innovative practices e.g.: fixing Credit Limits.

Operative Innovative Strategies:

Operative Innovative strategies are those strategies which involve with the tools of implementation to deliver services E.g. Direct Finance, Indirect finance, Number of Branches, Number of Employees ATM of a bank, Internet banking, online opening of accounts, online application for loans and advances etc.,

In the last couple of decades, IT has become an integral part of a Financial Institution's competitive advantage. During 1990's efficiency and cost-cutting used to the primary objectives of IT. Owing to relatively strong performance during economic downturn, banks have been able to evolve Implementations strategic approach towards investments

1 Moving from Customer Service to Customer Delight: An Ethnographic Study of the Relationship Managers in Banking Sector Dr. Damle Pramod[1], Dr. Ketkar Manisha[2]

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in IT. Saddled with high costs and integration challenges associated with the antiquated core banking systems, banks are beginning to consider IT based solutions to maintain the level of competitive advantage.

2.0 Literature review:

- **Dr. G P Sharma and Harsha Sharma**

  The term Innovation means to make something new. Innovation is introduction of a new good, introduction of new method of production, the opening of a new market, the conquest of a new source of supply, carrying out of the new organization of any industry. Indian Banking Sector has witnessed a numerous changes from decades. Value creation is an essential element in present era as market is buyer oriented. Most of the banks have introduced innovative techniques in banking in order to create value for customers and to add more and more customers in its network. In this paper we have discussed the various products & services offered by State Bank of India. SBI is a pioneer in providing various IT services. The research methodology adopted for this study is descriptive research study. The primary data is collected through interaction with the local branch managers of SBI and with the staff dealing with the IT services of the Bank. The secondary data is collected to substantiate the primary data. The various broachers, reports on IT of SBI, and the related articles of the relevant topic were referred for the study.

- **Maithili R.P. Singh**

  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.

- **P. Aswin Prakash and B. Dr.Sathish Kumar**

  The forth coming years for Indian industry will witness a transition in terms of technology and will also move faster from a seller's to a buyer's market. It will also see paradigm shift from local area to global operations. These changes will compel a major re-engineering of the market forces and players. We may also be witnessing a number of Indian companies which assisting and utilising this restructuring of banking industry. To add to this technological change a quite large number of mergers, acquisitions, take-overs, disinvestments and buy-backs may happen in Indian banking industry. To conclude Indian banking industry will operate with new concepts and benchmarks. The outcome of these may be witnessed by customer in terms of quality service at a cheaper operating cost.

- **DR. A. JAYAKUMAR and MR. G.ANBALAGAN**

  The banking sector in India has seen a number of changes. Most of the banks have begun to take an innovative approach towards banking with the objective of creating more value for customers in the banks. Banking in India has already undergone a huge transformation in the years since Independence. The rate of transformation was particularly high in the 1990s and 2000s, when a number of innovations changed the way banking was perceived. Some of the significant innovations and challenges in banking industries in India will discuss in this paper.

- **Seema Malik**

  Indian banking system touches the lives of millions of people and it is growing at a fast pace. Banking industry in India is facing number of challenges like changing needs and perceptions of customers, new regulations from time to time and great advances in technologies. The pressure of meeting these challenges have compelled banks to change the old ways of doing business. The research paper focuses on how the technology has transformed the face of banking in India. India's banking system has seen some major financial innovations in the past decades which lead to tremendous improvements in banking services and operations. The various innovations in banking and financial sector are ECS, RTGS, EFT, NEFT, ATM, Retail banking, Debit and Credit cards, free advisory services, online banking, mobile banking and many more value added products and services. This paper also highlights the benefits and challenges of changing banking trends. Banks are investing heavily in adoption of these innovations. The need of hour is to design such a system that encourages

the efficiency of investment in innovations and widens the gap between revenues and costs involved with reference to technological up gradation.

- **Mr. Ankit Goel, Mrs. Parul Garg and Mr. Deepak Chaudhary**

  Banks are one of the important professional institutions that interact with the masses and hold a unique & intermediary position in the economy. It influences the economic development of the country both in terms of Quality and Quantity. As in today's era needs and perception of customers are changing and other challenges too, the old way of doing banking is no more successful. India's banking system has seen some major financial innovations in the past decades which lead to tremendous improvements in banking services and operations such as ATM banking, NEFT,RTGS, IMPS, Online and Mobile banking. There is a further lot more scope to go forward. This objective of the paper is to find out the benefits and challenges of technology driven banking trends. Secondary data from various sources is used a research methodology. The necessitate of this millennium is to devise such a system that encourages the efficiency of investment, focus on future sustainability and can provide better customer service which leads towards satisfaction. The paper concludes by focusing on the current challenges, opportunities and future trends and scope of Innovative practices by Indian banking sector.

- **Sandeep Kaur**

  The banking sector plays an important role in the development of one country's economy. The development of banking sector depends upon the services provided by them to the customers in various aspects. New entrants to the market, new business models, changing customer expectations and fragmentation of traditional services are all contributing to put traditional banks under pressure to launch new technology in their operations. The banking sector in India has seen a number of changes. Most of the banks start innovative banking with object to create more value customers. ATM, RTGS, NEFT, Internet banking, Mobile banking, SMS Banking and cheque truncation system are some existing innovations. But there are some new innovations used by the non-banking institutions and few foreign banks. These new innovations may be grabbed by the Indian banks. So, this paper enlightens the knowledge light on new innovations in banking sector.

- **Aruna R. Shet**

  The banking sector in India has seen a number of changes. And to meet the challenges of changing needs and perceptions of customers, new regulations over the years and great advances in technologies, most of the

banks have begun to take an innovative approach towards banking with the objective of creating more value for customers in the banks. Today we have electronic payment system along with currency notes. India's financial sector is moving towards a scenario, where it can have new instruments along with liquidity and safety. Arrival of card, introduction of Electronic Clearing Service (ECS) in late 1990's , introduction of Electronic Funds Transfer, Real Time Gross Settlement (RTGS), introduction of NEFT (National Electronic Funds Transfer), mobile banking, online banking are the various innovations in banking. Banks are investing heavily in adoption of these innovations. This paper highlights the benefits of changing banking trends.

3.0 Statement of the Problem:

The concept of Innovation can be put to use in every paradigm of life; it may be Individual, Institution or Society at large. In today's Competitive business world the concept of Innovation has become a life-line for survival and growth. As Banks and Financial Institutions constitute the back-bone of every economy, the prosperity of each sector of the economy depends on the support systems installed by the banking system. A sound financial system ensures the well-being of every sector and institution of the economy. Agriculture is one of the Important and Largest Sector of the Indian Economy with majority of the population associated with it. The Indian Banking system from post-independence period to the present period has showing vibrant and tremendous innovative practices in its systems and operations towards providing Loans and Advances and other ancillary services to the Agricultural sector. This study focuses on establishing the relationship between the Innovative methods of Agricultural finance in rural areas by Indian Banking System (Total amount of Advances, Number of Branches and Number of Employees) and their impact on Agricultural GDP of India.

4.0 Objectives of the study:

1. To Analyse the Innovative Operational Policies adopted by Indian Banking System in Agricultural Financing and their impact on Agricultural GDP.

2. To establish the effectiveness of Innovation in Banking and their role in Economic revival of the Country in Agricultural Sector.

4.1 Hypothesis:

H0: There is no significant difference between The Innovative Operational Policies adopted by Indian Banking System in Agricultural Finance and Agricultural GDP.

H1: There is significant difference between significant difference

between The Innovative Operational Policies adopted by Indian Banking System in Agricultural Finance and Agricultural GDP.

5.0 Research Methodology and Analysis:

The Research is conceptual and descriptive in nature. The Total number of Agricultural finance (direct + indirect), Total number of Employees and Total number of Branches in Rural India are considered as Innovative Operational Policies adopted by Indian Banking System in Agricultural Finance. The data is collected from secondary sources with the help of Correlation and Analysis of Variance.

Year	Total Agricultural Finance (Direct + Indirect) Lakh lakhs	Total number of Employees (In lakhs)	Total number of Branches (in Lakhs)	Agricultural Output GDP (in Crores)
2011	24.65	2.09	0.36	8.80
2012	30.85	2.23	0.40	9.69
2013	37.89	2.34	0.45	11.13
2014	41.76	2.50	0.48	11.28
2015	47.61	2.51	0.50	11.50

5.1 Part-I

Calculation of Correlation (r)

Total Agricultural Finance(Direct + Indirect)Lakh lakhs			Agricultural Output GDP (in Crores)			
X	dx	dx Square	Y	dy	dy Square	dx dy
24.65	-11.9	141.61	8.80	-1.68	2.82	19.99
30.85	-5.7	32.49	9.69	-0.79	0.62	4.50
37.89	1.34	1.79	11.13	0.65	0.42	0.87
41.76	5.21	27.14	11.28	0.80	0.64	4.16
47.61	11.06	122.32	11.50	1.02	1.04	11.28
total		325.36			5.54	40.8

r = 0.96

r is > 6 PE

r is significant

Total number of Employees (In lakhs)			**Agricultural Output GDP (in Crores)**			
X	dx	dx Square	Y	dy	dy Square	dx dy
2.09	-0.244	0.06	8.80	-1.68	2.82	0.4099
2.23	-0.104	0.01	9.69	-0.79	0.62	0.0821
2.34	0.006	0.00	11.13	0.65	0.42	0.0039
2.50	0.166	0.280	11.28	0.80	0.64	0.1328
2.52	0.176	0.03	11.50	1.02	1.04	0.1795
total		0.13			5.54	1.086

r = 0.9647

r is> 6 PE

r is significant

Total number of Branches (in Lakhs)			**Agricultural Output GDP (in Crores)**			
X	dx	dx Square	Y	dy	dy Square	dx dy
0.36	-0.078	0.006	8.80	-1.68	2.82	0.1310
0.40	-0.038	0.001	9.69	-0.79	0.62	0.0030
0.45	0.012	0.000	11.13	0.65	0.42	0.0078
0.48	0.042	0.001	11.28	0.80	0.64	0.036
0.50	0.062	0.003	11.50	1.02	1.04	0.0632
total		0.011			5.54	0.2386

r = 0.98

r is > 6 PE

r is significant

Part-II

Further the study is also focussed to check the significant difference between the Innovative Operational Policies adopted by Indian Banking System in Agricultural Finance using ANOVA.

X1	X1Square	X2	X2 Square	X3	X3 Square
24.65	607.62	2.09	4.368	0.36	0.1296
30.85	951.72	2.23	4.972	0.40	0.160
37.89	1435.65	2.34	5.475	0.45	0.202
41.76	1743.89	2.50	6.250	0.48	0.230
47.61	2266.71	2.52	6.30	0.50	0.250
182.76	**7005.59**	**11.67**	**27.365**	**2.19**	**0.9719**

r = 3 and n = 15

T = Sum of all the observations in three samples

CF (Correction factor) = 182.76 + 11.67 + 2.19 = 196.62

T Square = 196.62x196.62 = 38659.42 = 2577.29

N 15 15

SST (Total sum of squares) = (sum of X1 Square + sum of X2 Square + sum of X3 Square) –CF

(7005.59 + 27.365 + 0.9716) – 2577.29 = 4456.63

SSTR (sum of squares between the samples)

$$= \frac{\text{Sum of X1 Sq}}{N1} + \frac{\text{Sum of X2 Sq}}{N2} + \frac{\text{sum of X3 sq}}{N3} - CF$$

$$\frac{182.76Sq}{5} + \frac{11.67Sq}{5} + \frac{2.19Sq}{5} - 2577.29 = 4131.0$$

SSE = SST – SSTR

4456.63 – 413101 =325.63

df1 = r – 1= 3-1 = 2 and df2 = n-r =15 – 3=12

Thus,

MSTR = SSTR = 4131 = 325.63

df1 2

MSE = SSE = 4456.63 = 371.38

df2 12

ANOVA TABLE

Source of Variation	Sum of Squares	Degree of Freedom	Mean Squares	Test Statistic	Calculated value
Between Samples	4131	2	325.63	$\frac{325.63}{371.38}$	0.8768
Within Samples	325.63	12	371.38		

Since the calculated Value 0.8768 is less than table value 3.8853 (df1 = 3, df2 = 12 and SE = 0.05) H0 is accepted. Hence we can conclude that the difference in the mean value of the three innovative practices is not significant. We infer that the innovative practices performance have homogenous impact.

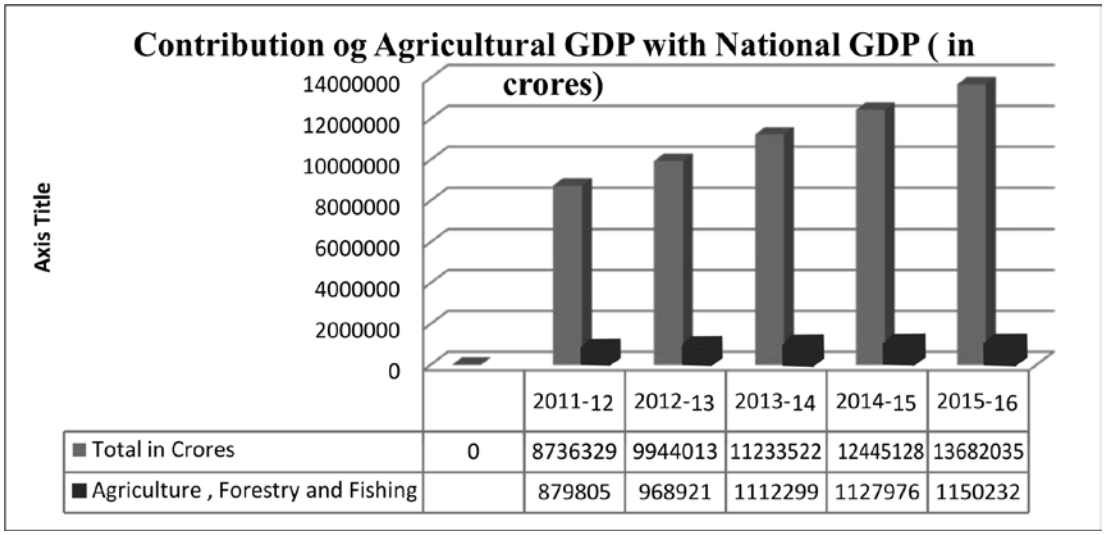
Part- III

The contribution of Agricultural GDP is compared with Total GDP of India, to show to what extent it is contributing to the Revival of the Economy.

National Accounts Statistics of India (2011-12 Series) @ current prices Domestic Product of

Economic activity (GDP at Market Prices Cost) in Crores

Year	**Total in Crores** in Current Prices	**Agriculture , Forestry and Fishing**
2011-12	8736329	879805
2012-13	9944013	968921
2013-14	11233522	1112299
2014-15	12445128	1127976
2015-16	13682035	1150232
Average	11208205.4	1047846.6



5.2 Findings:

- There is a strong Correlation between the Innovative practices followed by Indian banking system in agricultural finance and performance of agricultural sector in terms of agricultural GDP
- The impact of the innovative practices has a homogenous effect on the performance of Agricultural sector.
- Any increase in the performance of the Agricultural GDP will add value in the total National GDP, bringing the revival in the Economy.

5.3 Limitations of the Study:

- Generalization of the outcome cannot be made, as the research is restricted to the sample taken only for 5 years.

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