The Era of Innovative Banking and New Challenges

Vikas Kumar*
Assistant Professor, Commerce, Government P.G. College, Obra, U.P.

Abstract
The Banking system continues the centering in its financial set-up and as such banks are looked upon special in view of their particularized functions in the financial intermediation or act of intervening for the purpose of bringing about a settlement and payment system of a country. With the coming of Universal banking conception in the Indian banking sector, commercial banks – both in the public sector as well as private sector are concentrating on product modernization to meet customer contentment effectively. In perspective of these objectives, commercial banks have opted for diversification into allied areas of banking business.

Keywords: Banking Sector, Financial Problems, Risk Management, Economy.

Introduction
In India, there are marked disparities in income, industrial growth and development among its regions. The Policy makers, in order to address the issues of equitable growth and development of all the regions as well as the people, have combined both Socialistic and Capitalistic features in the country's economic policy framework since Independence (1).

This is evident from the large investments of the Public sector in infrastructure, manufacturing and the service sectors and also from the role assigned to the Banking sector. Thus, in India, the Banking sector has had to fulfill a purpose, role, or function of the destinations of the economic policies pronounced in successive Five-Year Development Plans, in particular concerning equitable income distribution, balanced regional Steady growth in the productive capacity of the economy (and so a growth of national income) and reduction and evacuation of private sector monopolies in trade and industry (2). An important landmark in the growth of the Indian Banking sector in of the immediate past years has been the first appearance of the reclams following the testimonials of the first Narasimham Committee on Financial System. This Committee was assembling in August 1991 by the Government of India as a part of its economy-wide geomorphic adjustment programme and in reception.

Lots of companies have reduced costs by outsourcing their non-core activities and to the inadequate economic and qualitative performance of the Public Sector Banks (3) on account of lack of competition, low capital base, low productivity and high intermediation cost.

The Financial sector regenerates, which commenced in early 1990s, have deracinated many of the outdated regulatory argues within which banks were commanded to carry out their actions. This provided more liberty to banks and they started overworking different areas of
cognitive process. Step by step, many of the banks, apart from their autochthonal function (Originating where it is found), i.e., banking, started having significant interests in all classes of financial businesses like insurance, funds management, mutual funds, securities trading etc. Finally, such a bank developed the status of Financial Accumulate and slowly began moving towards Universal Banking framework. All these have a commemorated change in the bodily structure of a bank(2), (3).

With the advent of Universal banking conception in the Indian banking sector, commercial banks – both in the public sector as well as private sector are centering on product innovation to meet customer gratification efficaciously(4).

In view of these objectives, commercial banks have preferred for diversification into confederative areas of banking business. In this cognitive operation, their risk vulnerabilities have also heightened substantially and this has invited the demand for regulations by the Government. Furthermore, as Indian Financial Sector embraces various and to some extent, heterogeneous group/set of financial intermediaries and service providers (2), (3), (4):

- Banks
- Developmental financial institutions
- Primary dealers
- Non-banking financial companies
- Mutual funds
- Housing finance companies
- Venture capital funds
- Insurance companies (both life as well as non-life)
- Rating agencies
- Accounting firms, brokers
- Repositories
- Asset reconstruction companies
- Trustees etc.

These were offering financial services to one or more categories of customers simultaneously – effective regulation is essential. Significantly, in India, regulations are rather stringent and an entity to convert itself into a Universal bank has to negotiate several regulatory authorities viz.:

- Reserve Bank of India (RBI)
- Securities Exchange Board of India (SEBI)
- And Insurance Regulatory Development Authority (IRDA)
- National Bank for Agriculture and Rural Development (NABARD)
- National Housing Bank (NHB) and
- Pension Fund Regulatory and Development Authority (PFRDA).

This has been made so as to prevent bank bankruptcy of banks can break down the entire economic set-up of a country.

For more than a century, in many developing countries, the Banking system corpse the centering in its financial set-up and as such banks are looked upon special in view of their differentiated functions in the financial intermediation and payment system of a country. The Indian Banking System is no such exclusion and in fact, in India too, economic development has acquired around the banking system. Notwithstanding, the Indian Banking System is unequalled and possibly has no parallels in the banking history of any country in the world(5).

This is for the reason that; on account of over the last five decades, Indian Banking has Perceive or be contemporaneous with a gradual and remarkable growth in terms of resource mobilization, branch expansion, and its control over financial pluses and also in terms of the services it offers.

Thus, the advancement of Indian Banking is enormous and it is not only substantial for the country’s economy but at the same time, it gives us concerning dimensions on the several phases of its growth particularly in the light of macroeconomic developments, pecuniary and banking policies of the government and the external combination of circumstances at a
The Era of Innovative Banking and New Challenges

Vikas Kumar

Innovative Banking and New Challenges (Beyond 2002)

Straightens out in the Banking sector (peculiarly after the first phase of Financial reforms) had a go at it the basis for a sound banking system and at the same time allowed for the much commanded impetus to Indian banks to carry out their business cognitive process in the competitive and exempted environment. In fact deregulation has sparked off competition and this is took for granted to intensify in 2009 and outside when the Indian Banking sector would be baffled open to foreign participants.

Thus, it is discernible that contest, here, does not mean just in terms of number of competitors, but it is in terms of development of conceptions, differentiated markets, cross-border trade in financial services and capital currents, all of which are to be affirmed by adequate selective information and communication technology (7).

Another area where banks have started accentuation upon is customer gratification. In fact, one of the greatest challenges for a service administration like a bank is to meet rising customer anticipations. Today, customers expect selective information and proposal on tailor-made asset management, operations management and high technology services integrating instruments such as derivatives. And it is considered that Information Technology plays a substantial role in providing better customer service, presumptively at a lower cost. Therefore, various innovative IT based services are adopted by banks in which the remarkable ones are(8),(9):

- ATM,
- Electronic Fund transfer
- Anywhere-Anytime banking
- Smart cards

Thus, in the Era of Innovative banking, Indian banks indigence to prop up their Balance Sheet in time, fund sectors of the thriftiness that need the money the most, and commingle and adopt to get the scale to take on competition especially in post 2009 so as to retain its customer-base (10),(11).

Institutional Set-up of the Indian Commercial Banking Sector

The Commercial Banking sector in India, as in dozens developing countries, has been the predominant component in the country’s financial system. Commercial banks which acquit the business of banking in India and which
(a) Have paid up capital and reserves of not less than Rs. 5 lakh and
(b) Satisfy the Reserve Bank of India that their involvements are not being conducted in a fashion detrimental to the interest of their depositors, are eligible for inclusion in the Second Schedule to the Reserve Bank of India Act, 1934, and when admitted are known as ‘Scheduled Commercial Banks’ (12),(13).

Commercial Banks admit foreign banks functioning in India in increase to Indian banks in the public sector and the private sector, letting in the Regional Rural Banks. Importantly, the banking sector in India is commanded by Scheduled Commercial banks and among these the largest banks accounting for a predominant share of bank deposits are owned by the Government(13).

Conclusion

The Banking system remains the focal point in its financial set-up and as such banks are regarded as special in view of their specialized functions in the financial intermediation and payment system of a country. With the advent of Universal banking concept in the Indian banking sector, commercial banks – both in the public sector as well as private sector are
focusing on product innovation to meet customer satisfaction effectively.

In view of these objectives, commercial banks have opted for diversification into allied areas of banking business.

References

Corresponding Author Information
Vikas Kumar: Assistant Professor, Commerce, Government P.G. College, Obra, U.P.