Research Paper *IJBARR*
Impact Factor: 3.072 *E- ISSN -2347-856X*
Peer Reviewed, Listed & Indexed *ISSN -2348-0653*

GOLDEN OPPORTUNITIES AND CHALLENGES IN MODERN BANKING SYSTEM

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Abstract
The banking sector is in a transitional mode towards a vibrato global market and sophisticated information technology. Due to this changing scenario, banks are paying more attention to expanding their activities from just lending and borrowing to other ends like, insurance merchant banking, leasing, electronic banking etc. Even though these changes were expected after the nationalization of banks in 1969, it was noticed that it had only slow and steady progress necessitating a total revamping of the banking sector. Various reform measures were taken to strengthen the foundation of the system by improving asset quality, enhancing capital and improving profitability along with structural changes in the system. During this transition, banks have seen fierce competition, risk, and revolutionary changes forcing them to take immediate steps to retain market share, redress the grievances of customers as fast as possible by maintaining good ambience, rendering courteous services to customers with the help of latest technological innovations and products.

Globalization and liberalization have forced the banks to think in terms of technology benefits and quality service to customers as future is full of challenges and survival will be a difficult task. The entry of IT infrastructure in the corporate world of banks has brought with it many innovations, in particular the Internet. Though these changes had started with Narasimham Committee's (1992) suggestions for computerization and were followed by Saraf Committee's (1994) recommendations for electronic fund transfers (EFT), Electronic Clearing Services (ECS) and automatic data capture, the banks were actually required to use the BANKET and RBINET and Internet to accommodate itself to the innumerous transactions that had resulted as a result of globalization and liberalization.

The Indian banking industry is not lagging behind, it has started providing services electronically over the internet. These services rendered over electronic media include:

- *Phone banking*
- *ATM – Automatic Teller Machines*
- *Credit Cards*
- *Electronic Fund Transfer –EFT*
- *Shared Payment Network System – SPNS*
- *Electronic Clearing Service - ECS*
- *Point of Sale – POS*
- *D-Mat Accounts*
- *Electronic Data Interchange*
- *E- Cheques*
- *Corporate Banking Terminal*

1. INTRODUCTION

Information Technology

The term "information technology" describes the phenomenon created by the convergence of technologies associated with computing, communication and office systems. In the past, most accounting procedures in banks were paper oriented. With the advent of new techniques like computers, electronic equipments and communication network, the modern accounting system have undergone a sea- change both in their preparation and presentation. The traditional system of preparing the account at quarterly, half yearly and annual lost their relevance since the information are constantly up-dated and made available at any time and anywhere. The information technology enabled the banking organizations to redesign and restructure their functioning.

These services provided by using electronic technology and media are called information technology or electronic banking or e-banking. E-banking has given an opportunity for banks to find solutions to management problems like saving time money and energy or customers by reducing/minimising paper works, waiting in queues, lack of communication and lack of efficiency. E-banking has provided ease and flexibility in banking operations. The recommendations of Narashimham Committee (1998), for the free and liberal entry of foreign banks in India have further improved the scope for e-banking. As many foreign banks and private sector banks like CITI Bank and ICICI, HDFC banks brought with them IT based products like ATM, credit cards, debit cards, on-line banking etc. This forced the public sector banks and other banks to think on the same lines as these services would help banks to retain their customers, target on banking products and services more effectively to customers.

Customers are also benefited as they are given more free time to indulge in e-commerce business. Therefore, after 1980 throughout the world with majority of banking transactions done through nets or by using information technology. So the information technology solves many problems of the banking industry and very useful to the customers too.

APPLICATION OF INFORMATION TECHNOLOGY

1.1. Phone banking

Bank on phone, provides easy access for customers to have large businesses through telephones. Data are exchanged over the phone regarding any queries, to issue instructions on balance transfer, statement of account, cheque- book, stop payments, new schemes, interest rates etc. at any convenient time and place. Tele banking has gone a long way in providing maximum customer satisfaction within the limited infrastructure.

1.2. Automatic Teller Machines: (ATM)

Banks in the cities to provide cash dispensation to their customers around the clock install ATMs. Now, the banks provide this facility in a more sophisticated way that a customer of one bank and branch can withdraw from any other banks, at any other branch, nation wide. In developed countries, this service is provided to their blue chip client globally. This is possible only through worldwide networking and communication system.

1.3. Credit cards

These plastic cards enable customers to spend whenever he/she wants within the prescribed limits and pay later. Debit card is a prepaid card with stored value, whereas credit card is post paid with fixed limits. It is seen that spending is higher through debit cards than with credit cards currently CITY Bank and time bank have started with Debit cards and now other banks are also following these to launch their own cards.

1.4. Electronic Funds Transfer: (EFT)

Electronic funds transfer is a system of processing and communication of payment through electronic methods. EFT assumes greater significance in the banking system as the RBI also encourages the commercial banks to adopt this technique. Inter and intra bank transfers of funds are now made through this EFT mechanism. Transactions of high value i.e., at least more than one lakh is now made through this cost effective and quick system of settlement. Normally, payments are made through cash, cheques, drafts and credit cards. The latest in this process are the debit card system, charge, digital cash, electronic purse and so on.

1.5. SPNS- (Shared payment network system)

SPNS installed by the IBA in the city of Mumbai, enables electronic banking service like cash transactions, extended hours of banking, utility payments, cheques, point of sale facilities by the SPNS can go to any ATM linked to SPNS.

1.6. Electronic Clearing Services [ECS]

Electronic clearing of funds from one centre to another for handling bulk transactions like salary, interest, dividend, commission etc., has dispensed the cheques. A part of electronic clearing service is computerized clearing of cheques at metropolitan centers and linking with international communication system of SWIFT. These services have contributed in a great way towards improving the customers' services globally. ECS was introduced in India in 1996. It has made it possible for customers to get the funds next day itself.

1.7. Point of sale [POS] terminal

Payment card at a retail location for electronic transfer of fund is called POS. The client enters his personal identification number [PIN] and confirms the amount due. Customer's account is automatically debited with the amount of purchases and it credits the retailers account POS installed at petrol stations and large retail houses are linked to banks network.

1.8. D-Mat Accounts

Transacting shares business through electronic media is called D-Mat. Investor opens an account called Demat Accounts with DPS. They get shares in electronic form.. Then they send the actual shares to the investor. Investor pays for the opening, maintenance and collection of shares. This has reduced the paper work, bad deliveries; loss of shares and less transaction cost. However delays in demating, higher cost charged by the investors has not given a good start for the growth and scope of Demat in India. Depository participant sometimes make illegal money at the cost of investors. SEBI should find ways to over come this to give a good scope for Demat in India.

1.9. Electronic Data Interchange-EDI

EDI refers to the electronic exchange of structure information using telecommunication like payment orders, debits credits, statement of account etc. As part of EDI, satellite communication network is also entering the banks. EDI will very soon do away with branch banking and the customers will be identified as ban customer and not branch customer

1.10. E-cheques

Digital cheque used by the payer to the payee through internet is called e-cheques. Electronic versions of cheques are issued, received and processed. Most of the banks use e-cheques. A secure means of operation is provided for collecting, payments, and transferring cash flows through this method. The payer issues a digital cheque to the payee and the entire transactions are done through internet

2. COMPUTERISED ACCOUNTING

Development in computer has brought about a change in the accounting practices in banks. A wide range of software packages were developed recently, which attributed to the widespread use of computers to increase the information needs. Microcomputer are used to keep records and for processing. Microcomputer is small unit capable of doing calculations, storing data and programmers. These computer range from small personal computer (PCs) to a blue chip "dest top" business computer. The microcomputers are used for word processing, spreadsheet application etc. if the computer is not properly used, and it will result in unfair accounting and loss of information. However, computer provides better information and increases the effiency of the banks.

Data base with different technology such as lost terminal, file server and client server system established all over the world. For creation, manipulation and share information, tools such as Microsoft windows were developed and applied. This Microsoft windows provide graphical user interface, window based word processing along with window based spreadsheet and E-mail package. Information technology now uses geographic information system (GIS) and global positioning system (GPS).

GIS means type in a map to any other type of data. GIS is capable of converting data into pictures and graphs.GPS means the system, which enabled the precise navigation and targeting of many of the weapons used during the gulf war.

3. E-MAIL

The system of sending messages from one computer to another is known as "E-mail. E-mail originally was introduced in the year 1983 in U.S.A. to send the messages through E-mail, a mini personal computer, one telephone line, a modern and software support is required. Modern is of various types like kotex, robotex, multi-moderna etc. the change for sending a message with 250 characters (bits) through E-mail is Rs2. for express it is Rs.4. for foreign countries it is Rs.15 per page. If it is sent through telex or fax it costs Rs5 extra for transmission even within our country. There are different commands like read mail, prepare mail, mail list, status, message forward etc. each of these commands do different functions for example, read mail enables us to read the message sent by other to our computer From the above we can understand that E-mail is the most economical and confidential mode of transmission of information globally.

4. RBI Net: (RBI NET)

This scheme facilitates the transfer of funds by a customer former any bank, any branch, any center to his client at some other center, so other bank and/or branch. Settlements between banks and with the RBI are now a day done through this system. Inter and tntra bank clearing are also done through this electronic communication system.

Internet: Internet is a system interconnected with network worldwide. The increasing popularity of the Internet is the worldwide web (WWW), which connects millions of servers. In India there are 500 Internet hosts and more than 750 web sites that provide this Internet service. The Internet has 25 million computer buffs and their population explodes at a rate of 10% per month. Internet has found a nest off 150 countries. Arpanet developed by the USA in 1969 was the base for this magical development of Internet. Only those who master the computer commands can work successfully on the Internet. The Internet has many features. E-mail is one of the simplest facilities available on the Internet. Through this Internet, a subscriber can set up a newsletter, or a discussion through which the participants exchange their views. In the modern age, it is possible to transmit texts; pictures and voices information from anywhere, in any form in the world is accessible to the subscriber at the press of a button and at a very minimum cost. Computer on the Internet communicate with each other in a number of ways. These methods are called services. The most popular services are,

1. Worldwide web
2. E-mail
3. FTP (file transfer protocol)

4. Use net news
5. ERNET
6. Browser
7. Graphic Viewers
8. New Reader
9. Uniform Resource Locator (URL)
10. Hypertext Transfer Protocol (http)
11. Gopher News
12. Wide Area Information Service (WAIS)
13. Application of information Technology in the Banking System

The following are the specific Areas where information technology can be used in the banking system.

1. Preparation and posting in ledger (LAN)
2. Portfolio management (genetic algorithm)
3. Funds management and transfer (on-line banking)
4. Credit appraisal
5. Foreign exchange transaction
6. Opening of letter of credit
7. Issue of letter of guarantee
8. Decision making at senior manager level
9. Employees training and education
10. Preparation and submission of financial statements
11. Identification of fraudulent credit card transactions (neutral network system).

5. BENEFITS

The information technology can be administered in the banking system. The application of information technology will help in increasing the operating efficiency of the banking system. Its application will result in saving in cost. The quality of the information can be improved. The branches can provide improved customer services. This will enable the domestic banks to face and challenge the competition from their foreign rivals. There will be a reduction in the staff strength to a considerable extent due to the adoption of information technology. The working condition of the bank branches can be improved.

Benefits of E-Banking Services

1. It reduces cost of both in services and administration
2. Overcoming the geographical barriers
3. Cost minimized for customers
4. It helps to maintain customer loyalty
5. Web site enable banks to develop advertisement
6. Information technology enable banks to deliver products and services
7. Multimedia capabilities offer homogenous branding
8. Online banking encourages promotion of various schemes of the bank
9. Individualized and customized services with the help of integrated customer data
10. Minimising fraud and misappropriation by inter-branch reconciliation
11. Convenience to customers – like card free banking, cash free banking provides a domain of access to banking services.

6. REASONS FOR POOR ACHIEVEMENT

1. Poor initial introduction of the information technology concepts in the banks
2. Improper implementation of techniques of information technology
3. Improper selection of hardware and software result in heavy cost and inefficiency
4. Inadequate suppliers support after the purchase of the IT system
5. Fear and reluctance among the staff regarding reduction of staff followed by retrenchment due to the introduction of information technology
6. Brain drain is yet another cause for the poor implementation of the information technology
7. Lack of co-ordination between the management and staff is another reason for the poor achievement.

CONCLUSION

The current trends are quite comforting for customer- but it does pose threats and problems to banks. As we find information technology invading the banking sector, only banks, which used the right technology, could come out with success. Banks are required to 'restructure', re-invent and reengineer themselves go meet the necessary performance improvement and get the competitive edge due to the introduction of information technology (e- banking) being an important out put of ;information technology has ushered in an era which is transforming the entire functioning of banks. The tilt in the banks from traditional to modern e-banking services has been welcomed due its advantages, but banks in India are taking time to get rooted. Banks are slow but are going to offer in further more e-banking services to keep in pace with the evolving pattern of customers demand.

The flexibility of e-banking offers unprecedented opportunities for the bank to reach out to its customers. With the rapid expansion of the Internet facilities, e-banking is all set to play a very important role in the 21st century. Banks have to deal with the sophisticated clientele with the help of latest technology like e-banking. Lack of coordination and cyber crimes encroaching. E banking if taken in the right way by banks and customers would take the economy to its best and make it a boon to customers

Introduction and/or development of information technology will not only affect the banking system of our country but the entire banking system of the world. It is high time to advise and train the banking personnel on the acquisition, installation and use of the information technology. Though there was a cry against the introduction of information technology, it is better to adopt it to face the stiff competition from the ever-dynamic foreign counterpart. As the banks become more sophisticated, the benefits of information technology will grow into leaps and bounds. Further research may be conducted on the feasibility of the introduction of home banking, mobile ATM, office banking, phone banking edger payment system and so on.

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