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RECENT TRENDS IN INDIAN BANKING SYSTEM

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ABSTRACT :

The reforms in the Indian banking sector have been introduced to increase the efficiency, stability, and effectiveness of banks. Current changing in banking related include: data and analytics, enhanced security and fraud mitigation, digital payments, cloud-based architectures and mobile apps in India.

KEYWORDS : *Indian banking sector , stability, and effectiveness of banks.*

INTRODUCTION :

The Indian banking industry has recently witnessed the rollout of innovative banking models like payments and small finance banks. In recent years India has also focused on increasing its banking sector reach, through various schemes like the Pradhan Mantri Jan Dhan Yojana and Post payment banks. Schemes like these coupled with major banking sector reforms like digital payments, a rise of Indian NBFCs and fintech have significantly enhanced India's financial inclusion and helped fuel the credit cycle in the country. The Indian banking system consists of 12 public sector banks, 22 private sector banks, 46 foreign banks, 56 regional rural banks, 1485 urban cooperative banks and 96,000 rural cooperative banks in addition to cooperative credit institutions. As of September 2021, the total number of ATMs in India reached 213,145 out of which 47.5% are in rural and semi urban areas. The banking system in India is significantly different from that of other Asian nations because of the country's unique geographic, social, and economic characteristics. India has a large population and land size, a diverse culture, and extreme disparities in income, which are marked among its regions. There are high levels of illiteracy among a large percentage of its population but, at the same time the country has a large reservoir of managerial and technologically advanced talents. Between about 30 and 35 percent of the population resides in metro and urban cities and the rest is spread in several semi-urban and rural centers. The country's economic policy framework combines socialistic and capitalistic features with a heavy bias towards public sector investment. India has followed the path of growth-led exports rather than the "export- led growth" of other Asian economies, with emphasis on self-reliance through import substitution, banks already operating in the country as well as entry restrictions facing new foreign banks. A criterion of reciprocity is required for any Indian bank to open an office abroad.

Indian banking sector can be majorly divided into three sections.

Phase I – This is from 1786 to 1969 and it was the initial phase of the banking. So, in this phase, many small banks were set up.

Phase II – This phase can be considered from 1969 to 1991 where regularization, nationalization, and growth of banks comes into the picture.
Phase III – This phase is from 1991 onwards and it consists of liberalization and it's after effects.

Trends in Banking

In recent years, there have been many changes in the banking industry. These trends in banking have made the whole process of banking very easy. These trends include the following.

RTGS Real Time Gross Settlement:

RTGS was introduced in India in March 2004. It is a system through which a bank receives instruction in the form of electronic for transferring the funds from one bank account to the other bank accounts.

As the name suggests, the transfer of funds between the accounts takes place in 'real time'. The RTGS system is kept running and maintained by the RBI.

So, it is operated by the RBI who provides it the faster and efficient way to transfer the funds while facilitating the various financial operations.

Thus, the money send under this system is instantaneous and the beneficiary gets the money within two hours.

Scope of the study:

The Indian banking sector has been experiencing a wave of change over the past decade. The growth in mobile banking and biometrics have to an extent affected the traditional business models of banks. However, most banks have shown tremendous resilience to these changes through adaptability and innovation the banking sector has become most relevant for everyone. Through online banking we can do our transactions from anywhere and at any time. The Internet has made sending money and transferring funds from one account to another at no cost. The government's extensive recapitalization exercise of public banks over the years has also helped these lenders become more self-sufficient. As public banks still dominate the Indian banking landscape the good health of these banks is of utmost importance for credit and GDP growth.

OBJECTIVES OF THE STUDY:

1. To Understand the recent changes in banking sector.
2. To know the hurdles in the changes of banking sector
3. To find the remedial measures for removing the hurdles in the changes of banking system

METHODOLOGY OF THE STUDY:

The study is based on secondary data and collected from the different website and from other sources. And it is theoretically analyzed and drown the conclusion.

Credit System in Rural Areas: The Credit is an important instrument for rural development. Most of the agricultural chores still depend on manual labour. It also involves techniques which are outdated and result in low outputs. The investment in rural areas has been on a low which effectively results in low output and productivity in all kinds of activities.

Capital Infusion: A capital infusion for a jump in productivity in reference to both agricultural and nonagricultural activities can be achieved by reforming credit and banking system. During the gestation period between sowing and harvesting seasons, farmers need credit to make ends meet, their general needs, initial requirements etc. Additionally, they also need credit to venture into modern agricultural techniques, to buy cattle, land etc.

Rural Banks: The banking and credit system in rural India has come a long way. With credit available at low interest rates through operation of NABARD and microcredit generation by the various self-help groups, less poor are falling into the debt trap. After the advent of the green revolution, productivity in agriculture increased manifolds. In essence modern techniques, high yielding variety seeds, sustainable activities etc. have been promoting productivity and output.

World's Largest Democracy: India is the world's largest democracy," the World Bank. "Over the past decade, the country's integration into the global economy has been accompanied by economic growth. India has now emerged as a global player." For more than 200 years, State Bank of India (SBI) has been the country's largest public sector bank, and its financial foundation. As many of the bank's customers grew their wealth in recent years, the bank saw that people had new financial freedom and sought new opportunities. It also knew that this growth could empower India's future as a global financial force.

BANKING AND GROWTH:

Theoretically, financial intermediaries help in mobilization of savings, project evaluation, risk diversification, monitoring management of firms in debt, facilitating transactions through technological innovation, and creating an environment for higher economic growth. Bank credit acts as money-capital and thus, is necessary for realization of innovative processes planned by entrepreneurs. The commercial banks and financial intermediaries loan out money to producers in order to help them invest in capital goods and sustain a steady rate of growth. Banks also are not passive intermediaries and help in transferring resources to new entrepreneurs. Banks also interact with intermediaries to decide the volume of credit based on their profit expectations of the project and the entrepreneur's ability to pay back the loans. Thus, banks play a crucial role in economic activity, innovation and entrepreneurship. The banking institutions play an important role in credit markets and serve as a center of social accounts. This function of a "social accountant", stressing the role of banking as a social institution needed for the constrained realization of individual choices and to make those choices mutually compatible, has a critical impact on the economy. The commercial banks are also repositories of unique information about their borrowers, an important segment of the credit market.

FINANCIAL INCLUSION:

Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan). Financial Inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products (The Committee on Financial Sector Reforms, Chairman: Dr. Raghuram G. Rajan).

Emerging Banking Trends in 2023:

The banking sector has gone through some major changes in recent years, and it's only going to continue to change in the years to come. If you're looking to stay ahead of the curve, it's important to know what trends are emerging in the world of banking. In this blog post, we will explore four major banking trends that are emerging in 2023. From digital-only banks to new payment methods, read on to learn more about what's in store for the future of banking. The banking industry is constantly evolving and changing. Here are three major banking trends that are emerging in the year 2023.

- **Increased security:** With more transactions happening online or via mobile devices, Cards and even smart watches, banks are ensuring secured payment systems with features like two-factor authentication and fraud monitoring.
- **Simplified checkout processes:** Consumers expect a streamlined and easy checkout process, whether they're paying online or in-app. Thus, banks are using an up-to-date and user-friendly digital payment system.
- **More options for international payments:** Banks are offering a good digital payment experience through real-time currency conversion and low fees for customers who send or receive money internationally.

Support Digital Payment: Digital payments are on the rise. Banks and other financial institutions are ensuring the best technologically equipped systems and infrastructure to support digital payments. This includes things like net Banking and mobile Baking as well as payment processing platform

Artificial Intelligence: Artificial intelligence (AI) is one of the most talked about emerging technologies in banking. Banks are already using AI for a variety of tasks, including fraud detection, customer service and mortgage approvals. The use of AI in banking is expected to grow in the coming years as banks look for ways to improve efficiency and reduce costs.

There are a few key trends to watch for when it comes to the use of AI in banking:

- **Banks are using AI to automate repetitive tasks:** Tasks such as customer service, fraud detection and anti-money laundering are being automated using AI. This allows banks to free up staff to focus on more critical tasks and improve efficiency.
- **Banks are using AI to personalize customer experience:** By using customer data, banks can provide a more personalized experience. This could involve providing recommendations on products or services that may be of interest to the customer.
- **Banks are using AI to improve risk management:** By analyzing data, banks can identify risks more quickly and take steps to mitigate them. This helps to protect the bank from losses and ensure that customers have a positive experience.
- **Banks are investing in fintech startups:** Many banks are investing in fintech startups that are developing innovative applications for artificial intelligence. This allows the banks to stay at the forefront of this emerging technology and tap into new markets.

Better Customer Support:

There's no doubt that providing excellent customer support is critical for any business, but it's especially important for banks. In a highly regulated industry where customers have a lot of choices, banks are doing whatever they can to stand out from the competition and give their customers the best in class service by offering better customer support. This includes providing more personalized service to making it easier for customers to get in touch with a live person when they need help. Whatever form it takes, better customer support can go a long way toward building trust and loyalty among bank customers. And that's something every bank is and will continue to work for.

Improved User Interface:

A good user interface is one that is both easy to use and visually appealing. A well-designed user interface will make it easy for users to find the information they need, navigate their way around the site and complete tasks quickly and easily. In recent years, there has been a trend toward simplifying web interfaces and removing unnecessary clutter. This has made sites easier to use and has improved the user experience. Banks are now starting to follow this trend, with many of them redesigning their online banking portals and mobile apps to enhance the customer experience through.

- A streamlined and simplified interface that is easy to access with assistance tools like Chatbots, Quick links, etc.
- Attractive visuals that are pleasing to look at.
- A user-friendly layout that helps users find what they need quickly and easily.

Risk Facing Banks in 2023:

The year ahead promises to be an uncertain and risk-filled one, which is why banks around the world have made significant provisions for credit losses. Certainly, the macroeconomic situation could affect banks' revenue and potentially cause customers to struggle to replay loans. The competitive environment, while dampened by the effects of the pandemic, is likely to continue to present surprises. Similarly, the risk of cyberattacks remains a very real concern. Other risks are less dramatic but over the long term present a serious challenge to banks that fail to address them. These include the failure to make the internal changes needed to remain competitive: attract and retain the necessary talent; meet customer expectations by fostering more human relationships; optimize operations for efficiency, quality and innovation; capitalize on the cloud for agility, collaboration and security; use data more effectively for personalized experiences and insight-driven decisions and more.

Traditional Banking Culture:

The traditional banking culture has been criticized for failing to keep pace with the requirements and preferences of customers and employees. Customers want banks to do more than just offer a functionally correct set of services and safeguard their money; they also want to feel that the bank cares about them and will help them manage their finances more effectively. Employees, on the other hand, want the bank to be more aligned with the issues and traits they consider to be important: sustainability, integrity, innovation, flexibility, compassion and more. Banks cannot afford to be out of sync with these two groups of stakeholders. Instead of acting as if their culture is a given, they should carefully consider their purpose and the kind of culture they need to realize it. If there is a gap between their current and required cultures, they should embark on a concerted, monitored program to change.

Hurdles Banks commit to net Zero:

For banks, net zero means much more than just limiting the emissions caused by their own operations; it includes helping customers transition to net zero too. The former is difficult enough. The latter includes a number of big challenges, just the first of which is the assumption of more risk than banks are designed to cope with: funding a new green economy, with all the unfamiliarity and new infrastructure that entails, takes banks beyond their mandate of lending their customers 'deposits prudently. Added to this is the fact that few banks have the data, and the data management capability, to assess which customers they should lend to and how effectively these loans are being used. They also lack the expertise to help customers transition from 'brown' to 'green' organizations, a transition that's different for every industry—and most players within each industry. The majority of large banks have accepted these challenges, but they have much to do if they are to overcome them.

FINDINGS OF THE STUDY:

1. The investment in rural areas has been on a low which effectively results in low output and productivity in all kinds of activities.
2. For more than 200 years, State Bank of India (SBI) has been the country's largest public sector bank, and its financial foundation.
3. The commercial banks are also repositories of unique information about their borrowers, an important segment of the credit market
4. Adopting new technology in the banking sectors leads to committed frauds by hackers.
5. There may be the risk of cyberattacks.
6. The Traditional employees needs to adjust the new technology.

SUGGESTIONS OF THE STUDY:

1. The banking and credit system in rural India has to come a long way. With credit available at low interest rates through operation of NABARD and microcredit generation by the various self-help groups, less poor are falling into the debt trap.
2. Digital payments are on the rise. Banks and other financial institutions are ensuring the best technologically equipped systems and infrastructure to support digital payments.
3. There is a gap between their current and required cultures, they should embark on a concerted, monitored program to change.
4. Banks are now starting to follow this trend, with many of them redesigning their online banking portals and mobile apps to enhance the customer experience through:
5. Bank should provide training facility to the existing staff for adjusting innovative technology in the banking sector.

6. The banks should provide the guarantee to the customers, and develop high level technology for finding the hackers and avoiding cybercrime.

CONCLUSION:

Banks have known for many years that they will inevitably have to retire their mainframes and move their core systems to the cloud. They have delayed due to the sunk cost, the risk of a move and a devil you know mindset. But this has come at the cost of rising upkeep expenses and risk, a lack of support for collaboration, agility and innovation, and a more variablized cost structure among others. As cloud service providers improve their offerings and make it easier and safer for banks to transition, so the cost/benefit equation shifts in the favor of cloud. We believe 2023 will be the year when most banks decide core modernization can longer be put off. Similarly, the risk of cyberattacks remains a very real concern. Other risks are less dramatic but over the long term present a serious challenge to banks that fail to address them. These include the failure to make the internal changes needed to remain competitive, attract and retain the necessary talent, meet customer expectations by fostering more human relationships, optimize operations for efficiency, quality and innovation, capitalize on the cloud for agility, collaboration and security, use data more effectively for personalized experiences and insight-driven decisions and more.

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