Role of Information Technology in Indian banking sector

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ABSTRACT

Technological advancement and economic growth are truly related to each other. The level of technology is also an important determinant of economic growth. The rapid rate of growth can be achieved through high level of technology. Schumpeter observed that innovation or technological progress is the only determinant of economic progress. It is the technological progress which keeps the economy moving. Inventions and innovations have been largely responsible for rapid economic growth in developed countries. Banking industry is backbone of Indian financial system and it is afflicted by many challenging forces. One such force is revolution of information technology. In this Globalized era, technology support is very important for the successful functioning of the banking sector. This research paper focuses on the impact of technology in Indian banking sector. Information technology refers to the acquisition, processing, storage and communication of all types of information by using computer technology and telecommunication system. In the present paper, impact of technology on banking and finance are considering. And shows how it accelerates the growth rate of economy.

INTRODUCTION

Information Technology (IT) is very powerful in today’s world, and financial institutions are the backbone of the Indian economy. Indian Banking Industry today is in the midst of an IT revolution. Nearly, all the nationalised banks in India are going for information technology based solutions. The application of IT in Banks has reduced the scope of traditional or conventional banking with manual operations. Nowadays banks have moved from disbursed to a centralised environment, which shows the impact of IT on banks. Banks are using new tools and techniques to find out their customers need and offer them tailor made products and services. The impact of automation in banking sector is difficult to measure. With the increasing role of technology a developing country can get benefited many folds. More job opportunities are available for the labour force. Because of machines, production will be enlarged this needs more number of workers in the production process. Increased production leads to GDP growth which will contribute to the fiscal health of the economy.

REVIEW OF LITERATURE

Dr. Rangarajan committee (1983) had drawn up in 1983-84 the first blue print for computerisation and mechanisation in banking industry and looked into modalities of drawing up a phased plan for mechanisation for the banking industry covering period 1985-89.

In 1994, the Governor, Reserve bank of India had appointed a committee on technology issues under the chairmanship of W. S. Saraf. The committee looked into technological issues related to the payment system and to make recommendations for widening the use of modern technology in the banking industry.

Willcocks (1994), Information systems/information technology investment may be described as any acquisition of software or hardware which is expected to expand or increase the business benefits of an organization’s information systems and render long-term benefits.

In order to examine the various issues related to the technology upgradation in the banking sector, the Reserve Bank of India appointed Narasimhan committee in September 1998. The committee consists of representatives from the Government, Reserve Bank of India, banks and academic institutions associated with the information technology.

Berger (2003), the usage of information technology (IT)xx broadly referring to computers and peripheral equipment, has seen tremendous growth in service industries in the recent past. The most obvious example is perhaps the banking industry, where through the introduction of IT related products in internet banking, electronic payments, security investments, information exchanges, banks now can provide more diverse services to customers with less manpower.

Sivakumaran (2005), believes that adoption of technology has led to the following benefits: greater productivity, profitability, and efficiency; faster service and customer satisfaction; convenience and flexibility; 24x7 operations; and space and cost savings.

TRANSFORMATION OF INDIAN BANKING

Pre-Reform Period-

- A period of consolidation of banks up to 1966.
- A period of historic expansion in both geographical and functional terms from 1966-1980.
• A period of consolidation of branches from mid 1980-1991. These above changes were policy induced but not driven by market force.

**Post- Reform Period**

Entry of technology in Indian banking industry can be traced back to the Rangrajan committee Report, way back in the 1980s but during the 1990s, the banking sector witnessed various liberalization measure. One of the major objectives of Indian banking sector reforms was to encourage operational self-sufficiency, flexibility and competition in the system and to increase the banking standards in India to the international best practices. The second phase of reforms began in 1997 with aim to reorganization measures, human capital development, technological up-gradation, structural development which helped them for achieving universal benchmarks in terms of prudential norms and pre-eminent practices.

**Technology influences the banking industry, mainly in the following three aspects:**

1. Technology is influencing competition and the degree of contestability in banking. Due to the development of technology, bank’s superiority in information is deteriorated. Entry barrier have been declining, new competitor have emerged. Some financial products and services have become more transparent and commodities, customer show willing to unbundled the demand for financial products and services, all these lead to a more competitive market environment. Due to lowered entry and exist and deconstruction, for some sub-financial markets, contestability in banking is also raised.

2. Technology influence Economy of scale: Competitive pressure force banks to lower their cost. Bank seeks to get economy of scale in bank procession instead of being a big bank. Bank seeks to secure the optimal business structure, and secure the competitive imperative of economy of scale. There are other options to get economy of scale, including joint venture and confederation of financial firms. Small firms also can get economy of scale by outsourcing, i.e. buy in economy of scale.

3. Technology influence the economics of delivery Technology has a major impact on the way banking and financial services are delivered. A wide range of alternative delivery mechanism becomes available, Internet, ATM... these reduces the dependence on the branch network as a core delivery mechanism. With the development of technology, the financial systems are substantially over-supplied with delivery system through a duplication of network, bank has to change their delivery strategy, rationalize their branch network strategy, and widen the range of delivery option.

**INNOVATIONS IN BANKING SECTOR**

Banking industry in India has also achieved a new height with the changing times. Customer services and customer satisfaction are prime responsibilities of banks now days. Information technology has given rise to new innovations in the product designing and their delivery in the banking and finance industries.

**ATM** an automated teller machine (ATM) is a computerized telecommunications device that provides a financial institution’s customers a secure method of performing financial transactions in a public space without a human clerk or bank teller.

**Debit Card and Credit Card** a debit card is an electronic card issued by a bank which allows bank clients access to their account to withdraw cash or pay for goods and services. This removes the need for bank clients to go to the bank to remove cash from their account as they can now just go to an ATM or pay electronically at merchant locations. A credit card is issued by a financial company giving the holder an option to borrow funds, usually at point of sale. Credit cards charge interest and are primarily used for short-term financing.

**NEFT** According to Reserve Bank of India, National Electronic Funds Transfer (NEFT) is a nation-wide payment system to facilitate one-to-one funds transfer. Under NEFT, individuals, firms and corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme. The funds under NEFT can be transferred by individuals, firms or corporates maintaining accounts with a bank branch.

**RTGS** Real Time Gross Settlement system(RTGS), introduced in India since March 2004, is a system through which electronics instructions can be given by banks to transfer funds from their account to the account of another bank. The RTGS system is maintained and operated by the RBI and provides a means of efficient and faster funds transfer among banks facilitating their financial operations.

**Core banking Solutions (CBS)** - Computerization of bank branches had started with installation of simple computers to automate the functioning of branches, especially at high traffic branches. Core Banking Solutions (CBS) is the networking of the branches of a bank, so as to enable the customers to operate their accounts from any bank branch, regardless of which branch he opened the account with.

Internet Banking-Internet banking enables a customer to do banking transactions through the bank’s website on the Internet. It is a system of accessing accounts and general information on bank products and services through a computer while sitting in its office or home

The rise in instances of frauds leading to NPAs in banking sector also underpin a growing concern of rising corruption in banking sector. The emphasis on knowing the customer, employees and partners has been stressed upon time and again. Yet loopholes either in the credit disbursal or audit mechanism also allow for agents to indulge in corruption to make suitable gains through frauds. Corruption, in macro terms, has both direct and indirect costs. While the direct costs are well known in terms of scandals and loss of confidence in administration, the indirect costs are debilitating causing low growth and higher income in equality. It can also erode the ethical standard of citizens. Thus it has significant impact on macro-economic stability and sustainable economic growth.
also impedes conduct of budgetary and monetary policy, weakens financial oversight and hurts inclusive growth. Corruption weakens government capacity to raise revenue and perform its core functions by diluting culture of complaints and increasing tax evasion. To conclude, banking plays an important role in economic growth and development. In India, PSBs have been in the forefront of mobilizing resources from far flung rural areas as well as extending banking services in the remotest parts of the country.

REFERENCES