

# Role of Technology in Banking Industry – A Comparative Study of Public and Private Banks -Post Demonetization

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**Abstract:- With the movement towards globalization, upcoming financial crisis of the economy and strong regulatory requirements by the regulatory bodies' concept of "payment banks" or "digital banks" are making their space in the real and competitive world and also putting pressure on the banks with the challenge to change their traditional structure to survive in highly competitive age of advancement. Be it any sector- education, healthcare, manufacturing or banking all are affected with the evolution and introduction of new innovative tools and techniques of information technology. Emerging and advanced technology has not only changed the working pattern of banks but has also moved them from paper and pen to digitized and networked services. The path on which commercial banks has accepted the new IT culture has changed their working pattern considerably. In order to survive in highly competitive world because of intense competition by foreign and international players, banks are putting lot of efforts on understanding the drivers to increase efficiency and generate better financial performance. It is now believed that information technology is not a panacea but a tool to fight with the players at the borders and to enhance efficiency to change the picture of the existing economy. In this age of competition and survival of the fittest, the contribution and acceptance of information technology to various sectors specially banking is being questioned. In this context, this paper will highlight the role of information technology to banking industry with special focus on the changing working pattern and its impact on working style of public and private banks.**

## I. INTRODUCTION

Indian banking system is consistently moving towards the development of technological changes and its advantages in banking operations. For the overall economic growth of the country, technology is considered to be the backbone of financial system. Be it a manufacturing sector, education or banking all are growing under the aid of technology. For making the full usage of technology, banks are heavily investing in new technological or innovative methods of banking. ATMs, E-banking, mobile banking, CRM, tele-banking are some of the examples. Electronic banking services, Indian Financial network (INFINET), Real time gross settlement etc shows that RBI has also adopted new technological payment methods on an ongoing

basis. Because of the above mentioned factors Indian financial system has become more complex as compared to International Financial system.

Liberalization, Privatization & globalization have changed the picture of Indian Economy in a different way in last few Years. Indian banking system is not an exception left behind. These set reforms has shown or presented numerous challenges before Indian Banking System to either shake hand with the pace of new technological methods or left behind with old traditional system. For a healthy economic system, it is needed to have a sound and effective banking or financial system as it is considered to be backbone of the economy. Indian banking should not only be hassle free but also meet external or internal factors and new challenges of technology. However, it is acceptable that only up gradation of technology or introduction of new innovation products to banking system will not improve the state of affairs till the time customers associated with the banks respond positively. Thus, it become necessary for the banks to not only retain old customers but also add new groups by offering new products and services on time taking into consideration customer's preferences, perceptions & convenience.

Developments in the information technology strongly support the growth and inclusiveness of various sectors of economy, there by facilitating inclusive economic growth. Introduction of information technology in banking not only results in enhancement of its competitive efficiency by strengthening backend administrative processes but also improves front end operations as well as helps in bringing down transaction costs for the customers. Reserve bank of India has been actively involved in introducing innovative technological products in Indian banking system. Adoption of Core Banking Solution(CBS) is Major contribution of technology in banking sector which in turn is networking of branches that helps customers to access their accounts online from any branch of the bank.

Indian banking system has seen number of phases of metamorphosis in which one was in 1969 when all commercial banks were turned into nationalized banks by our Prime Minister & Finance Minister- Indira Gandhi. Actual transformation or turnaround of Indian banking system was started post 1991 economic liberalization when banks involved in offering better fare to customers.

## II. OBJECTIVES OF THE STUDY

- To study the impact of technological improvements in banking sector.
- To study impact of demonetization in banking sector.
- To study growth of banking sector from traditional style to modern approach.

## III. RESEARCH METHODOLOGY

The present study aims to capture the change in the usage of technology in the banking sector that has taken place after demonetization. The usage of the technology by both, banks and the customers has increased many-fold since the declaration of demonetization. Not much research has been done on the topic and it is still awaited to be seen as how the whole thing turns out to be. The data has been collected majorly from the news source because of dearth of research and the recency of the event. For this Research data and information has also been collected from Books, Magazines, Newspapers, Research Articles, Research Journals, RBI Report, and Internet.

## IV. BANKING INNOVATIONS

Banking sector in India has seen number of changes in last few years. Many banks have begun to take an innovative approach towards banking with an objective to satisfy their customers by offering new technological & innovative products time to time which in turn will add value to customers. Information technology plays a very vital role in turning around the picture and growth of Indian banking system. New innovations in product designing and their delivery in banking and finance industries are result of it. Information technology has not only made changes in the banking system but also offered a wide range of innovations to build up new systems that address wide range of customer needs that are beyond imagination years ago. Upcoming competition among banks and association of financial innovations with it will completely change banking philosophy. Challenging business environment within banking system will result in innovation and arrival of technological products in banking.

At present, we are at crosswords of using electronic payment system along with currency notes. New changes in the system and upcoming issue of “digital private bank” shows that financial sector is moving a step forward where it can have instruments along with liquidity and safety. Below picture will highlight advantage of technology by growth of ATMs till march 2016.

Progress Report of installation of ATMs by Public Sector Banks For the Quarter March, 2016							
S.No.	Name of the Bank	Total No. of ATMs as on 31.03.2015	Total No. of ATMs planned for installation in 2015-16	No. of ATMs installed in during the reporting quarter March, 2016	Cumulative No. of ATMs installed from 01.04.2015 to 31.03.2016	Total No. of ATMs of the Bank as on 31.03.2016 (3+6)	% of Cumulative Progress in the Reporting Quarter
1	2	3	4	5	6	7	8
1	Allahabad Bank	1188	150	3	44	1212	29.33
2	Andhra Bank	2399	1000	266	1237	3636	123.70
3	Bank of Baroda	8338	1882	270	1772	10110	108.18
4	Bank of India	8771	729	20	1038	7807	142.11
5	Bank of Maharashtra	1849	58	2	12	1881	21.43
6	Bhartiya Mahila Bank	55	110	11	43	98	39.09
7	Canara Bank	8533	250	260	895	9251	358.00
8	Central Bank of India	4835	865	114	419	5254	63.00
9	Corporation Bank	2833	300	0	107	3040	35.88
10	Dena Bank	1482	200	5	-11	1471	-5.50
11	IDBI Bank	3000	500	85	310	3310	62.00
12	Indian Bank	2344	250	14	440	2784	176.00
13	Indian Overseas Bank	3571	400	35	222	3793	55.50
14	Oriental Bank of Com	2488	100	9	113	2588	113.00
15	Punjab & Sind Bank	1288	170	8	74	1341	43.53
16	Punjab National Bank	8348	1700	579	1115	9463	85.59
17	SBB & J	1843	100	32	111	1954	111.00
18	SBH	2342	100	21	38	2380	38.00
19	State Bank of India	45502	4200	1115	4222	49724	101.00
20	State Bank of Mysore	1334	170	32	82	1416	48.24
21	State Bank of Patiala	1440	50	17	87	1507	134.00
22	State B of Travancore	1602	100	8	105	1707	105.00
23	Syndicate Bank	3427	300	59	303	3730	101.00
24	UCO Bank	2096	837	147	488	2584	73.47
25	Union bank of India	7020	1000	53	311	8883	31.10
26	United Bank of India	1912	150	14	132	2044	88.00
27	Vijaya Bank	1383	200	87	268	1651	134.00
	Total	128283	15249	3275	13895	142557	

Fig 1

### A. Challenges in Banking Sector:-

Innovations and technological changes present unique opportunities and challenges in Indian banking system from time to time. Adopting new & right technology, using it in a proper way to achieve high service and efficiency standards and delivery of good returns to share holders is essential for banks to survive in today's highly competitive market. In India, huge population resides under poverty line and has no access to banking services while on the other hand there is another category who is continuously availing banking services. This gave rise to another challenge for Indian banks. Due to the existence of foreign banks in Indian market and difference in products and services offered, banks are putting emphasis on increasing the level of services offered to customers so as to meet their expectations on time.

Demographic growth of India will turn the picture of our country from populated to densely populate very soon in which there exists two different categories named rural and urban India. These two points can only be bringing together through technological advancements. Biggest & primary challenge for Indian banks is to offer wide range of products and services to every type of customer irrespective rural or urban. Now days, technology has made very easy to deliver services through networks wherein, customers can access their accounts anytime but this has converted into a challenge for banks to retain their customers and add new group of customers by offering new things on time. Even for becoming competitive and generating good revenue, it is important for banks to make their products available at all time and across the organization.

Today, banks are focusing more on enhanced delivery system which in turn would transform branches, enhanced telephone services and leading edge internet banking functions that provide a positive multi-channel experience to customers. Some of the key challenges that banks are facing and coping with-

- Adjusting new and updated technological changes in a running system.
- Meeting with the increased level of expectations of customers regarding products & services.
- Online availability of information regarding account information.
- Managing diversified information system and customers.
- Challenge to cope with regulatory reforms and to maintain high quality assets.

Challenges in the banking industry are moving on at a higher speed. New innovations in respect of products and services are making system more complex for the bankers but easy for the customers. Even after putting efforts some of the people are still lagging behind in using banks services, while other class is one step ahead using mobile banking, e-banking, ATMs etc.

*B. Changed Picture of Indian Economy after Demonetization:-*

Technology has although contributed a lot to Indian economy in all the sectors. Be it a manufacturing, education or banking all are travelling in a same compartment of technology. Technological changes and innovations have provided a platform to Indian banks for better customer relationships.

Number of Global M-Payments Transactions (Billion), 2011-2015F

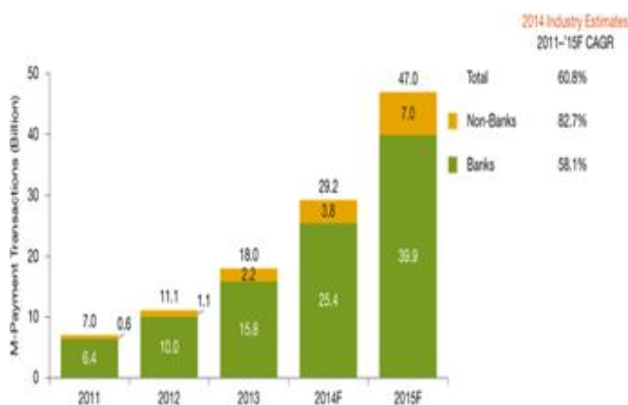


Fig 2

Indian banks are considered to be the backbone Indian economy and act as catalyst for activating and sustaining economic growth. As per the KPMG report, Banks in India are contributing thrice to economy as compared to last few years which shows that by 2020, Indian banking industry will soon become fifth largest banking industry in the world and third largest by 2025. Indian Banking industry includes

26 public, 20 private and 43 foreign banks which are in race of inculcating new technological and innovative methods in their banking system. Many Indian banks have successfully adopted Basel-II norms while few others have also met Basel-III norms.

Though Demonetization is a good step to be taken against corruption by our Prime Minister but on the other hand, it is putting impact on the country’s economic growth in a short term. According to one of the reputed Research Company Ambit, it was estimated that GDP growth will be 7.3% by FY18 but after listing out facts and figures it was revised to 5.8%. Impact has not only pressurized people to stand in queue to get money but also put hurdles in the growth of many industries. E-commerce is totally under the negative impact of demonetization. 70% online shoppers in India believe on “cash on delivery” policy which makes companies to build good relations with the customers. But due to demonetization or in short cash crunch business of most of the companies show a negative growth in last few years. On the other hand, some companies are enjoying full advantage of demonetization as their growth exceeded to twice what it was earlier for an example –Paytm. If we take this step in a positive way then it will change our economy from cash to cashless economy. Vision was to encourage cashless transactions and online payments so that there will be tremendous growth seen in next few years. Cash on delivery transactions includes overhead costs too which will be reduced once people start moving towards online payments. The prime objective of demonetization is to make Indian economy stronger and also to eliminate parallel cash economy which is uncounted and tax free. Though it is well understood that in short term it will hamper our growth and GDP but may lay down good examples in future. For the companies like Amazon having online digital systems it will take time to adjust with the normal situation but soon it will show steadily growth in their sales operations.

This masterstroke of our Prime Minister has some advantages and disadvantages on Indian economy. When it was announced people were in shock as higher currency value notes have to be removed from economy in a single shot which are utilized for corrupt deals in the country. It was an alarm for the people those are involved in holding the high denomination currency for a longer period and utilizing it for wrong purposes. Demonetization is not new for our country as it was already in system in 1938, repeated again in 1954. It is seen that common public and bankers are primary ones who are affected with this decision but it is believed that this step will surely have a positive long lasting impact on Indian economy in coming years which will be praised by general public.

Every big change comes up with some good or bad impact sooner or later. Demonetization has also come up with some pros and cons:-

➤ *Pros:-*

First and the foremost advantage of this step are to catch people holding black money and using it for corrupt practices. It is seen that high denomination currency notes were kept aside by some of the majority and used further for corrupt deals in the country. Demonetization of higher currency notes pressurize them either to dump their illegal money or to put them or exchange them in banks as they will be penalized or asked questions by prosecuted authorities about huge amount of money.

Secondly, smuggling and dealings of arms will be strictly close as money transactions will be recorded for them.

Thirdly, banking system will be boost up as 7 to 8 crore people approximately will be added to the branches and their white money will be known to the government.

Fourth, society will move to credit access and financial inclusion and put a step towards cashless which will show a growth in economy.

Fifth, it will minimize the risk of holding cash as soft money is easy to handle than hard money. Every single in the system is a liability for government, this step will also reduce government liability as people will avoid disclosing cash which they hiding before.

Sixth, reduce in tax avoidance.

Thus, we can conclude that changes are not only for putting hurdles in the growth but some are for betterment. Sometimes, initial stages are little difficult to pass on but as when results come up it becomes more smooth for the people associated with it.

➤ *Cons:-*

Negative aspect of demonetization can easily be seen by the pressure on the retail companies and e-commerce companies facing tremendous fall in their growth in last few days.

Firstly, liquidity squeeze caused by this step named as demonetization has a negative impact on various sectors involved in high level cash transactions.

Secondly, segments like jewellery, luxury, Real estate, retailing & restaurants etc are facing short term instability because most of the transactions are in cash.

Though , this step is made to fight against corruption but it is not possible that in few days or months the problem which has its deep roots in the system will be eradicated from the system.

**V. CONCLUSION**

Demonetization have brought a significant change in Indian economic scenario. Currently the rapidly growing Indian economy is facing a number of challenges and introduction and implementation of demonetization have created a range of new problems and opportunities in the banking sector. However Indian banking system have adopted and started utilizing the recent advances of technology long back with the beginning of this millennium, but the current trends and dynamic banking scenario have a lot to adopt from the forthcoming changes that are due to take place because of demonetization. It is evident that in recent times, due to demonetization the different digital payment platforms have experienced a multifold growth in their business; simultaneously the banks have become more gullible to witness the cyber crimes. Now Banks have to adopt the new technology and they have to make their customer more aware. The aware customer will be less vulnerable to cyber crimes. Apart from that Banks have to illustrate its users that how they are using the digital platforms for their e-payments (For example; it should be told to all the users and customers that they should only perform their online transactions using those websites that starts with 'http//').

The banking system in rural areas should be more equipped and responsive towards the problems and issues of their customers. Most of the population in India is under poverty line and have no access to bank accounts. To make them aware with the advantages of technology and its use in banking is a big challenge. Demonetization will only bring change in the society when people are aware of its pros. NO wonder that banking up gradation in rural areas will take another few years to become digital and cashless but yes this step will force people to move a step further towards dream of making Indian society as cashless society.

Technology has provided us number of innovative tools & products but to put them in a right order will bring change in the picture of our country. Rome was not built in one day like as demonetization will not show its long lasting positive impact in one day, it will slowly put hurdles in the growth but soon when economy is adapted to changes and everything is stable it will show a remarkable growth in the economic growth of our country.

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