Hutatma Rajguru Shikshan Prasarak Mandal's

ARTS, COMMERCE AND SCIENCE COLLEGE, DEHANE

Tal- Khed, Dist- Pune, Pin- 412 402.

।। जीवनाय ज्ञानं वरम् ।।



Department of Commerce and Economics

Organizes

NATIONAL SEMINAR

On

"INNOVATIVE CHANGES IN BANKING AND FINANCIAL SECTOR"

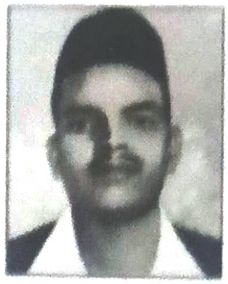
Date: 15th & 16th February 2019



Chief Editor
Asst. Prof. Siddharth K. Ranyewale

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Dr. Pandurang V. Muluk

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A Study of the Changes of Banking Sector in India

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Abstract : Commercial banks play an important role ir ⁾ᵗ financial system and tʰ economy. They provide specialized financial services, which reduce the cost of obtaining information about both savings and borrowing opportunities. These financial services help to make the overall economy more efficient. One way to answer your question is to imagine, for a moment, a world without banking institutions, If there were no banks, Where would you go to borrow money? What would you do with your savings? Would you be able to borrow (save) as much as you need, when you need it, in a form that would be convenient for you? What risks might you face as a saver (borrower)?

Key Word: Bank, Functions, bank work, changes.

Introduction: Commercial banks play an important role in the financial system and the economy. As a key component of the financial system, banks allocate funds from savers to borrowers in an efficient manner. They provide specialized financial services, which reduce the cost of obtaining information about both savings and borrowing opportunities. These financial services help to make the overall economy more efficient.

Objectve of the research : To study the bank work and changing functions of the bank.

Data Collection : The secondary data use for the present research paper.

Explanation:

Imagine a World Without Banks : One way to answer your question is to imagine, for a moment, a world without banking institutions.

If there were no bank :

- Where would you go to borrow money?
- What would you do with your savings?
- Would you be able to borrow (save) as much as you need, when you need it, in a form that would be convenient for you?
- What risks might you face as a saver (borrower)?

How Banks Work : Banks operate by borrowing funds-usually by accepting deposits or by borrowing in the money markets. Banks borrow from individuals, businesses, financial institutions, and governments with surplus funds (savings). They then use those deposits and borrowed funds (liabilities of the bank) to make loans or to purchase securities (assets of the bank). Banks make these loans to businesses, other financial institutions, individuals, and governments (that need the funds for investments or other purposes). Interest rates provide the price signals for borrowers, lenders, and banks.

Through the process of taking deposits, making loans, and responding to interest rate signals, the banking system helps channel funds from savers to borrowers in an efficient manner. Savers range from an individual with a $1,000 certificate of deposit to a corporation with millions of dollars in temporary savings. Banks also service a wide array of borrowers, from an individual who takes a loan of $100 on a credit card to a major corporation financing a billion-dollar corporate merger.

Banks are Only One Type of Financial Intermediary : Finally, the U.S. financial services industry and financial markets are highly developed. In recent decades, many new products and services have been created, as well as new financial instruments and institutions. Today, in addition to banks, there are several other important types of financial intermediaries. These include savings institutions, credit unions, insurance companies, mutual funds, pension funds, finance companies, and real estate investment trusts (REITS).

Banks' assets have grown in recent decades in absolute terms; however, banks have tended to lose market share to even faster growing intermediaries such as pension funds and mutual funds. Still, banks continue to account for a significant share-over 23 percent-of the assets of all financial intermediaries at the end of year 2000, as the chart below shows.

The Indian banking sector has seen unprecedented growth along with remarkable improvement in its quality of assets and efficiency since economic liberalization began in the early 1990s. From providing plain vanilla banking services, banks have gradually transformed themselves into universal banks. ATMs, Internet banking, mobile banking and social banking have made "anytime anywhere banking" the norm now. In 2011/12, non-cash payments comprised 91 per cent of total transactions in terms of value and 48 per cent in terms of volume. Within noncash payments, too, the share of payments through cheques has come down from 85 per cent to nine per cent in value, and 83 per cent to 52 per cent in volume between 2005/06 and 2011/12.

Banks have taken other measures to improve their functioning, too. As a result, there were 20 Indian banks in the UK-based Brand Finance's annual international ranking of top 500 in 2010, as compared to only six in 2007, according to a report in a leading financial daily.

The growth is not restricted to the metropolitan or urban areas. Financial inclusion has been at the forefront of regulators and policy makers in India, a country where approximately half of the population still does not have access to banking services. There have been occasions when banks have acted beyond their role of finance providers. For example, a financial daily reported that Aryavart Gramin Bank, a regional rural bank sponsored by Bank of India, tied up with Tata BP Solar to finance "Solar Home Lighting System" for village homes in Uttar Pradesh. It extended finance of around Rs 10,000 with Rs 3,000 as margin money to be contributed by the beneficiary.

The equated monthly installment towards the repayment of the loan amount was less than the amount the villagers had to spend on kerosene requirements per month. The bank's initiative resulted in 20,000 houses getting solar power. It also meant an annual saving of about 192 tanker loads of kerosene. India's banking system was probably one of the few large banking systems which remained unscathed by the 2008 global financial crisis. However, there is a lot more to be done to make it a truly world-class sector.

Some of the key developments which could shape the future are: Basel III: India figures among the very few countries which have issued final guidelines on Basel III implementation so far. The Reserve Bank of India has given five years for the gradual achievement of Basel III global banking standard. But it seems a tall order for many banks. The challenges of implementing Basel III are further accentuated by the fact that the law mandates the Central government to hold a majority share in public sector banks (PSBs), which control more than 70 per cent of the banking business in India. Further, the high fiscal deficit is likely to limit the government's ability to infuse capital in the PSBs to meet Basel III guidelines, which will require approximately Rs 4.05 trillion to Rs 4.25 trillion over the next five to six years. (One trillion equals to Rs 100,000 crore.) The high capital requirement will also add pressure on return of equity of banks.

New banks :

Banks of the future will need to understand the Tech-savvy Gen-y Customers and Design Products Accordingly

Although there has been little progress on the draft norms for issuing new banking licences, the entry of new banks could have a significant impact on the Indian banking system. Given the huge unbanked population, there is surely a scope for more banks .

Foreign banks : RBI has been keen on allowing foreign banks a larger role in the Indian banking system since February 2005, when it first issued the road map for presence of foreign banks in India. In May 2012, the government also facilitated the process by proposing to exempt foreign banks from the 30 per cent tax on capital gains and stamp duty while converting branches into a new entity. RBI has also mandated foreign banks with 20 and more branches to achieve priority sector targets and sub-targets at par with their domestic counterparts.

Developing corporate bond markets : Developing corporate bond markets is an important link in a well developed financial market. Although the government has taken some steps in this direction, a lot more needs to be done.

Unique Identification (UID) project : Among the many initiatives, the government's UID project is likely to have significant impact. Given the numbers out of the reach of organised banking, it can prove to be transformational by giving banks an access to a large untapped customer base. The whole range of government payments - under subsidies and benefits of various welfare schemes - will be routed through banks.

Social media : This adds another dimension for banks to manage their relationship with customers. It already had over 45 million users in India in 2011, which is expected to grow to over 88 million by the next year with over 75 per cent under the age of 35, according to media reports. Although banks in India have been a little late in using social media, they have been making fast progress.

With increasing volume and complexity of the banking business, it will be imperative for the regulator to move gradually towards more offsite monitoring than onsite. Technology will play a much larger role in the overall supervision of the banking system. There are likely to be transformational changes in the entire regulatory system for financial services.

Given the significant overlap between various sub-sectors, the Financial Sector Legislative Reforms Commission, headed by former Justice B.N. Srikrishna, in its approach paper, had suggested large scale consolidation. This is expected to lead to reduced intermediation cost, benefit from the economies of scale and consistent treatment across sub-sectors ,The future belongs to those who prepare for it today, goes a famous quote. The changes in the banking landscape will require banks to also adapt to their new environment. Banks of the future will have to be nimble and lean organisations with technology integrated to support a sustainable and scalable business.

They will need to have a flexible organisational structure with decentralised decision making to reduce turnaround time for various processes. This will be especially true when a number of new entities including non-banking finance companies (NBFCs), large corporate houses and microfinance institutions (MFIs) get banking licences.

In order to serve potential customers in unbanked areas, banks should be willing to experiment with various business models to build a scalable and profitable business. Technology resources will have to be shared to reduce cost. At the same time, banks of the future will need to understand the technology-savvy Gen-Y customers and design products accordingly. Banks will have to deploy the majority of their employees in sales and marketing roles to cross-sell services to existing customers. There will be an increased demand for skilled personnel from other disciplines. Banks will have to use data analytics tools to gain insights from their existing customers' data to increase their business and customer loyalty. One of the prominent ingredients for the success of a bank will be its ability to partner with multiple agencies to increase its business . The Indian banking landscape is expected to evolve to have regional as well as national players. Except for a few large banks having pan-India presence, many of the mid and small banks will specialise in certain functions/regions in diverse markets. Rather than every bank trying to carry out all the banking functions throughout the country, banks are likely to identify their core competencies and build on those. A bank that avoids "one-size-fits-all products", acts as a knowledge banker, provides all financial needs at a click, is fundamentally strong, manages risk and adheres to global regulations, harness iOS and Android platforms to the fullest, design better, faster and convenient delivery channels will no doubt be called a successful bank.

Conclusion : Thus, Banking sector is one of the most powerful sector in an economy. The changes under the sector enhance the bank functions.

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