



## An overview on the Indian Modern Banking Services

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**Abstract** *An attempt is made in this chapter to present the role of Indian banks and various services of the banks. It is fact that banking system plays a very significant role in the economy of a country. It is central to a nation's economy as it caters to the needs of credit for all the sections of the society. India is not only the world's largest independent democracy but also an emerging economic giant. The Indian banking industry is passing through a phase of customers market. Technological infrastructure has become an indispensable part of the reforms process in the banking system, with the gradual development of sophisticated instruments and innovations in market practices.*

**Key words:** *Economy, government, Technology, Demat Services*

### 1. Introduction

Banking system plays a very significant role in the economy of a country. It is central to a nation's economy as it caters to the needs of credit for all the sections of the society. Money-lending in one form or the other has evolved along with the history of mankind. Towards the beginning of the 20 century, with the onset of modern industry in our country; the need for government-regulated banking system was felt. The British government began to pay attention towards the need for an organized banking sector in the country and the Reserve Bank of India was set up to regulate the formal banking sector in the country. Ever since they were nationalized in 1969, banks have been playing a major role in the socio-economic life of the country. They have to act not only as purveyors of credit, but also as harbingers of social and economic development through a variety of enterprises, many of which may tiny and yet capable of generating productive energies.

India is not only the world's largest independent democracy, but also

an emerging economic giant. Without a sound and effective banking system, no country can have a healthy economy. For the past three decades, India's banking system has several outstanding achievements to its credit. It is no longer confined to only the metropolitans, but has reached even to the remote corners of the country. This is one of the reasons of India's growth process.

In addition to the traditional roles that provide funds to agriculture and industrial sector, banks also perform certain new age functions which could not be thought of a couple of decades ago. Today, the banking sector is one of the biggest service sectors in India. Availability of quality services is vital for the well-being of the economy. The focus of banks has shifted from customer acquisition to customer retention. With the stepping in of information technology in the banking sector, the working strategy of the banking sector has been revolutionary changes<sup>1</sup>

With years, banks are adding services to their customers. The Indian banking industry is passing through a phase of customers market. The



customers have more choices in choosing their banks. A competition has been established within the banks operating in India. The new age Information Technology (IT) is bringing about sweeping changes in the banking industry, forcing them to re-engineer many of their basic processes and systems. Few of the technology-driven electronic banking services being offered are viz. Automated Teller Ma-chines ATM, Electronic Clearing Service (ECS), Electronic Funds Transfer (EFT), tele-banking, internet banking etc. New technological capabilities could be effectively used to create value and to better manage customer relationship.

Reddy (2001) stated "Banks are at different stages of technology adoption partly due to their different legacies, as much as the differences in their strategic approaches to computerization and technology absorption". The foreign banks are ahead in offering better banking services and products, coupled with smart use of IT adoption and have considerably achieved high operational efficiency (RBI 2001)<sup>2</sup>.

All most all banks are now trying to provide different dypes of services to their customers. Vyas P (2004)<sup>3</sup> concluded that there was effective implementation of e-banking services in case of private banks and foreign banks, whereas, nationalized banks were found to have lesser degree of computerization. Dr. Rangarajan, the former Deputy Governor, Reserve Bank of India, says "Indian banks have to conform to international accounting standards, if Indian banks are to get their due place and recognition in the global financial market" (Jankiraman 1994)<sup>4</sup>. Here, an attempt is made to analyze the banking serves including the guide lines of Reserve Bank of India (RBI).

## 2. Current Services in Indian Banking Industry

The Banking sector has been immensely benefited from the implementation of superior technology during the recent past, almost in every nation in the world. Productivity enhancement, innovative products, speedy transactions seamless transfer of funds, real time information system, and efficient risk management are some of the advantage derived through the technology. Information technology has also improved the efficiency and robustness of business processes across banking sector. India's banking sector has made rapid strides in reforming itself to the new competitive business environment. Indian banking industry is the midst of an IT revolution. Technological infrastructure has become an indispensable part of the reforms process in the banking system, with the gradual development of sophisticated instruments and innovations in market practices.

### Cards

Banks provide free ATM cum Debit Card to its customers who have deposit account with them. This Card provides online access to savings or current account. They can have access to the widest network of ATMs across the country to withdraw cash, enquire about the account balance etc. Banks are also having bilateral sharing arrangement with other banks under this scheme Transactions limit varies from bank to bank. The limit for withdrawal of money from State Bank of India Card Rs 20,000/- per day. Holders of Elite Account in Centurion bank Card can transact nearly one lakh per day. Some Banks provide International ATM-cum-Debit Card which can be used within as



well as outside India, at a nominal fee. ATM Cards enables the customer to shop at a large number of Merchant Establishment in India.

### Insurance

Insurance is a kind of investment and is getting popular among the customers of banks. Insurance can be for life or for fixed assets. Banks do services for life insurance. In earlier days people used to go for life insurance with Life Insurance Corporation of India.; But now, banks also have entering into the insurance business. ICICI Prudential Life Insurance is one such example. Life Insurance is a unique investment that helps customers to meet their dual needs – saving for life's important goals. and coverage of risk. It helps one's family remain protected from circumstances such as loss of income due to critical illness, retirement and even after the death of the policyholder.

### Demat Services

Banks have come forward to offer Demat services to its customer. Demat account is opened for the purpose of buying and selling stocks/shares of companies. Under this, the following facilities are provided to the customers

(i) e-Instructions: One can transfer securities 24 hours a day, 7 days a week through Internet & Interactive Voice Response (IVR) at a lower cost. Now with "Speak to transfer", one can also transfer or pledge instruction through customer care officer of the concerned bank

(ii) Consolidation of Demat Account: Under this one can Dematerialize the physical shares in various holding patterns and consolidate all such scattered holdings into primary demat account at reduced cost.

(iii) Digitally Signed Statement: One can receive account statement and bill by email.

(iv). Corporate Benefit Tracking: One can track dividend, interest, bonus etc through one's account statement.

Mobile Request: Access one's Demat account by sending SMS to enquire about Holdings, Transactions, Bill & ISIN details.

(v) Mobile Alerts: Receive SMS alerts for all debits/credits as well as for any request which cannot be processed.

Banks in alliance with Securities Limited Organisations introduce a State of-the-Art online trading platform to cater to every trading need and offer a truly world class experience of online investing- anyplace, anytime. This service ;provides with a 3-in-1 account which is an integrated platform of Bank Account, Demat Account and an Online Trading Account to give customers a convenient and paper free trading experience under one roof. This will help the customer to trade from the comfort of home or office through the Internet. Buying and selling of shares is now just a click away distance. Apart from online trading account advantage, customers will get the added advantage of a Savings and Demat account also.

### Online Services

Transaction at the convenience of customers, saving times and cost through Computers is popularly known as Online Banking. It is also known as E-Banking or Net Banking or internet Banking. It is done through a computer with internet facilities. Customers can monitor and control their funds through Internet Banking. They can check account balance, view their account,. Get summary statement, make bill payments



and utility payments, request for Cheque book, drafts, Bankers Cheques, stop cheque payment transfer funds, request for third party transfers, invest and renew deposits, issue standing instructions, register mobile number for SMS alerts and many more attractive features. User-Id and Password are given by the banks to the customer for operation of account after they successfully register with the bank

### **NRI Banking**

A Non Resident Indian(NRI) as per FEMA 1999 is an Indian citizen or Foreign National of Indian Origin resident outside India for purpose of employment, carrying on business or vocation in circumstances as would indicate an intention to stay outside India for an Indefinite period. An Individual will also be considered as NRI if his/ her stay in India is less than 182 days during the proceeding financial year.

Banks allow NRI's to open an NRI account when they complete the account opening formalities. A customer for this purchase a form has to be filled up in which the information sought by the bank is provided. . They can open a NRI Saving Bank Account, Current Account, Fixed Deposits in Indian Rupees, Fixed Deposits in Foreign Currency, NRO account ( Rupee accounts for crediting income in India)

**Money Transfer:** Money can be transferred either through on line or drafts or telegraphically or by wire transfer or Cheques. E-Transfer is completely online, paperless money transfer service which enables the customer to send money directly from one bank account in foreign country to India. Drafts in Indian rupees can be purchased from exchange companies of

one country and mailed to the branch of another country where the customer has the account. Telegraphic or wire transfers can be made through branch to branch. Cheques can be deposited for credit of the customer's accounts and the Cheques will be collected and credited to their accounts.

**Corporate Banking:** Banks provide facilities to Corporate houses for different purposes. Banks are offering financial services for new projects as well as expansion, diversification and modernization of existing projects in infrastructure and non-infrastructure sectors for economic development of our country. Infrastructure sector includes Road & Urban Infrastructure, Power and Utilities, Oil & Gas and other natural resources, Ports and Air[ports and Telecommunications. Non-infrastructure sector includes Manufacturing i.e. cement, steel, mining, engineering, auto components, textiles, Pulp & Papers, Chemical & Pharmaceuticals etc; Services i.e. Tourism & Hospitality, Educational Institutions, Health Industry etc.

**Corporate Net Banking:** Most banks such as SBI and other banks offer Internet Banking for corporate too. Corporate can empower officers identified by them to operate online one or more of their accounts at one or more networked branches of the Bank. The company appoints a 'regulator' or 'super-boss' for corporate Internet banking. The powers are defined and their limits are specified for transaction.

**Cash Management:** Cash Management is managing a company's short term resources to sustain its ongoing activities, mobilize funds and optimize liquidity. Cash Management comprises of accelerating and efficiently collecting



cash inflows concentrating collected funds; Controlling the timing of cash outflows; forecasting the position; securing adequate sources of short-term funds; optimizing use of any temporary cash surpluses; gathering timely information; implementing the system and services necessary to monitor, manage, and control the cash position; ensuring the internal and external transfer of financial data.

**Forex Online:** Forex means **Foreign Exchange**. Forex market is very large and growing. Trading is conducted mostly either through telephones or through electronic trading networks. Banks, Insurance companies and other financial institutions use the forex market to manage the risks associated with fluctuations in currency rates. Forex trading involves a high level of risk and may not be suitable for untrained investors. It requires constant monitoring and to understand the relationship between the currencies and their rates. Before starting trading one has to open an account with a forex dealer. The investor should have constant touch with currency exchange rates since there will be a lot of fluctuations in the exchange rates. If one is not cautious he/she may lose money. If one is using Internet based or other electronic system for trading, in the event of system failure, one may lose orders or order priority and result in loss of investments too. The investor should also know about the foreign currency scam to avoid losses.

#### **SME Services**

SME means Small and Medium Enterprises. The Bank finances for Small Business activities which are of special significance to a large number of people as many of these activities can be started with relatively lower investment and with

no special skills on the part of the entrepreneurs. This includes loan to traders to meet normal business requirements. Large number of small and medium enterprises are working in our country. These enterprises are a source of employment to the local people. Such enterprises mainly adopt labour intensive techniques even though finances are required by them to meet long term as well as short-term credit requirements. Banks provide a variety of facilities through the SME Service.

#### **IT in Banking**

Indian banking industry, today is in the midst of an IT revolution. A combination of regulatory and competitive reasons has led to increasing importance of total banking automation in the Indian Banking Industry. The bank which used the right technology to supply timely information will see productivity increase and thereby gain a competitive edge. To compete in an economy which is opening up, it is imperative for the Indian Banks to observe the latest technology and modify it to suit their environment. Information technology offers a chance for banks to build new systems that address a wide range of customer needs including many that may not be imaginable today. Following are the innovative services offered by the industry in the recent past<sup>5</sup>

#### **Electronic Payment Services - E Cheques**

Nowadays we are hearing about e-governance, e-mail, e-commerce, e-tail etc. In the same manner, a new technology is being developed in US for introduction of e-cheque, which will eventually replace the conventional paper cheque. India, as harbinger to the introduction of e-cheque, the Negotiable Instruments Act has already been



amended to include; Truncated cheque and E-cheque instruments.

### **Real Time Gross Settlement (RTGS)**

Real Time Gross Settlement system, 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. As the name suggests, funds transfer between banks takes place on a 'Real Time' basis. Therefore, money can reach the beneficiary instantaneously and the beneficiary's bank has the responsibility to credit the beneficiary's account within two hours.

### **Electronic Funds Transfer (EFT)**

Electronic Funds Transfer (EFT) is a system whereby anyone who wants to make payment to another person/company etc. can approach his bank and make cash payment or give instructions/authorization to transfer funds directly from his own account to the bank account of the receiver/beneficiary. Complete details such as the receiver's name, bank account number, account type (savings or current account), bank name, city, branch name etc. should be furnished to the bank at the time of requesting for such transfers so that the amount reaches the beneficiaries' account correctly and faster. RBI is the service provider of EFT.

### **Electronic Clearing Service (ECS)**

Electronic Clearing Service is a retail payment system that can be used to make bulk payments/receipts of a similar nature especially where each individual

payment is of a repetitive nature and of relatively smaller amount. This facility is meant for companies and government departments to make/receive large volumes of payments rather than for funds transfers by individuals.

### **Automatic Teller Machine (ATM)**

Automatic Teller Machine is the most popular device in India, which enables the customers to withdraw their money 24 hours a day 7 days a week. It is a device that allows customer who has an ATM card to perform routine banking transactions without interacting with a human teller. In addition to cash withdrawal, ATMs can be used for payment of utility bills,

**Point of Sale Terminal** : Point of Sale Terminal is a computer terminal that is linked online to the computerized customer information files in a bank and magnetically encoded plastic transaction card that identifies the customer to the computer. During a transaction, the customer's account is debited and the retailer's account is credited by the computer for the amount of purchase.

**Tele Banking** : Tele Banking facilitates the customer to do entire non-cash related banking on telephone. Under this device Automatic Voice Recorder is used for simpler queries and transactions. For complicated queries and transactions, manned phone terminals are used.

### **Electronic Data Interchange (EDI)**

Electronic Data Interchange is the electronic exchange of business documents like purchase order, invoices, shipping notices, receiving advices etc. in a standard, computer processed, universally accepted format between trading partners. EDI can also be used to transmit financial information and payments in electronic form.



### 3. Conclusion

To conclude, it can say that the modern economies of the country have developed primarily by making best use of the credit availability in their systems. India is on the march; far reaching socio-economic changes are taking place and Indian banks should come forward to play this role in the process. The role of banks has been important, but it is going to be even more important in the future due to high growth of population and trade transactions. It is now treating as a prime source to transactions to tax aviation.

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