

INNOVATIONS IN THE BANKING SECTOR: AN OVERVIEW

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Abstract: Banks began to use technology to provide better quality of services at greater speed. Internet Banking and mobile banking made it convenient for customers to do their banking from geographically diverse places. Now all the banks have started with the concept of multi channels like ATMs, credit cards, debit cards, telephone/mobile banking, internet banking, call centers etc. In globalized world, the role of banking is redefined as service provider of various financial services under one roof acting like a financial supermarket. The banks are looking for new ways not only to attract but also to retain the customers and gain competitive advantage over their competitors. This paper provides insight into the types of innovative banking, the trends in modern banking, how innovations have contributed to the development of Indian banking and innovations those are creating a stir in the banking industry.

Key words: Technological Innovations, Banking.

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I. INTRODUCTION

The term innovation means to make something new. Banks now no longer restricted to traditional banking activities but explored newer avenues to increase business and capture new market. The banking sector across world is experiencing a day to day change in the technology. Due to rapid changes in the technology in the world even India is experiencing same changes and transformation in the technology. This transformation in the technology has a great impact on the services offered in the industry. As India is moving with the in captivate of digital India, the banking sector in India is also towards improvisation of high and advance technology offering to their customers. Digitalization of services has kept banks on competitive edge.

Nowadays the Indian banking sector has seen number changes. Most of the banks began to take an innovative challenge towards banking with the objectives to create more customers and consequently to the banks. The government result of regulation, tax policies, globalization, and privatization to raise risk in the monetary market. Today's digital age and hyper connected environment requires banks to re image their business continuously and Indian banks are leading the pack when it comes to transforming from digital to truly digital. Technology has got embedded in banks and the financial sector. We started from the ledger posting machine and moved to the ATMS, debit and credit card and other forms of digital banking transactions.

II. OBJECTIVES OF THE STUDY

1. To study the types of innovative banking.
2. To study the innovations those are creating a stir in the banking industry.
3. To study the trends in modern banking.
4. To study how innovations have contributed to the development of Indian banking.

III. RESEARCH METHODOLOGY

The present study is descriptive in nature and is based on secondary data. The data has been extracted from various sources like research articles, publications from Government of India, various bulletins of RBI and authenticated websites.

IV. REVIEW OF LITERATURE

- ❖ **W. Scott Frame, Larry Wall and Lawrence J. White (2018)** the article entitled "Technological Change and Financial Innovation in Banking: Some Implications for Fin tech". The paper first describes the role of the financial system in a modern economy and how technological change and financial innovation can affect social welfare. The study found that, Technological change has also transformed consumer lending

by moving from human to automated underwriting based on credit scores and other pieces of hard information.

- ❖ **Asare Yaw Obeng and Emmanuel Boachie (2018)** the article entitled “The Impact of IT technological innovation on the productivity of a bank’s employee”. The major contribution of this study is identifying the effects of and interrelationships among the impact of technological innovation, satisfaction level of technological innovation and employee productivity. The study found that, the managers are provided with more reliable and actionable insights to focus on and develop more deeply into innovation strategies to embark on innovation activities that would improve the competence, operational efficiency and productivity of their employees.
- ❖ **Diljeep G. Menon and Malini A (2017)** the article entitled “Technological Innovations in the banking Sector in India: an Analysis”. The goal of the paper is to identify ten important innovative solutions in the banking sector and analyze them in the context of assumptions of the paradigm of relationships and features of product orientation with related to technology. Banking is a rapidly changing industry. The study found that, in the current scenario people go with innovation and technology to get their work done much smarter and faster. The study also found that, the biggest paradigm shift that has occurred is the digitalization of banks which aim at providing customers with a broad scope of benefits.
- ❖ **Nakul, Parameswar, Swati Dhir and Sanjay Dhir (2017)** the article entitled “Banking on Innovation, Innovation in Banking at ICICI Bank”. The paper focused on creating value in order to attract and retain customers in a highly competitive industry, designing and simplifying access via technology and launching the pilot products. The study found that, technology lies at the heart of every 21st century organization and the experiences of ICICI bank show that it has come to influence every stage of banking.

V. TYPES OF INNOVATIVE BANKING

- **Internet Banking:** Internet banking is also known as online banking, Virtual banking and Web banking. Internet banking allows its user to execute transactions with the help of internet. Internet banking provides all the functions which are provided traditionally at a local bank branch such as deposit of money, bill payment. ICICI is the first bank to introduce internet banking. Internet banking consists of financial transactions via internet from banks internet banking portal. Internet banking helps its users to bank even on bank holidays. Fund transfers, payments, statements, cheque book request are some of the best features of internet banking. IMPS, VAS and Online shopping via internet banking are the most usable features of internet banking.
- **Mobile Banking:** Mobile banking is a system that allows customers to perform a number of financial transactions through a mobile device. It can be termed as “Portable banking”. Even if it is a bank holiday, users are allowed to do transactions via mobile banking. It may include:
 - a) Bill Payment Alert b) Utility Bill Payment c) ATM location d) Interbank mobile payment service
- **Wholesale and Retail Banking:** Retail Banking refers to banking in which banking institutions execute transactions directly with consumers rather than corporate or other banks. It includes following services:
 - a) Saving and checking accounts b) Personal loans c) Debit cards d) Credit cards.Wholesale banking refers to conducting banking business with industrial and business entities. This includes corporate, trading houses, multinational companies and domestic companies. It includes following:
 - a) Fund based services b) Non fund based services c) Value added services d) Internet banking services.
- **Universal and Narrow Banking:** Universal banking is a combination of commercial banking, investment banking, development banking, insurance and many other financial activities. It is a place where all products are available. Narrow banking involves mobilizing the larger part of the deposits in risk free assets such as government securities. In India narrow banking is implemented partially. It basically helps the banks to reduce NPAs.
- **Offshore and Multinational Banking: Offshore Banking** is a term used to describe banking activity in currencies other than the currency of the country in which the bank accounts are held. Countries conducting such business are called offshore financial centre. **Multinational Banks** are those banks that physically operated in more than one country. It is also known as international bank.
 - Indian bank is the first bank to open its branch outside India in 1946.
 - Bank of Baroda has maximum number of overseas branches.
- **Automated Teller Machine (ATM):** ATM is the computerized machine which allows user to withdraw cash from customer’s bank account along with some more features like cheque book request etc.
- **E-Lobby:** E- lobby is the computerized machine similar to ATM which allows cash withdrawal and cash deposit to users bank account.
- **SMS Banking:** SMS banking allows bank customer to do transaction via single mobile SMS, transaction like balance enquiry, term deposit details etc.

- **Debit Cards:** Debit card is the plastic card with magnetic strip or chip based card which is linked to the customer’s bank account. Debit card is used for withdrawal of cash from ATM, Online Payment, and Payment via POS machines etc.
- **Credit Card:** Credit card is a plastic card with a magnetic strip authorized to purchase up to a predetermined amount i.e. a credit limit. Banks issue it to their customers to enable them to purchase on credit. These cards store the information relating to customers account.

Table 1: The Number of Credit Cards in Circulation over the Years (In Millions)

Year	Number of Credit Cards in Circulation
2013	19.55
2014	19.18
2015	21.10
2016	24.51
2017	29.84
2018	37.48

Source: RBI



Table 2: Number of Digital Buyers in India (In Millions)

Year	Number of Digital Buyers in India
2014	54.1
2015	82.3
2016	112.7
2017	153.2
2018	192.6

Source: Statista



Table 3: Global Mobile Banking Benchmark Score

Banks	Global Mobile Banking Benchmark Score Out of 100
ICICI Bank	63
Axis Bank	52
HDFC Bank	48

City Bank	38
SBI	35
Global Average	65

Source: Business Standard, Forrester

VI. INNOVATIONS THAT ARE CREATING A STIR IN THE BANKING INDUSTRY

- 1. Partnering with E- wallets:** Riding on the back of cashless economy initiatives, most of the top banks in the country have partnered with or acquired start ups, to adapt their e- wallets and make them accessible to customers. While HDFC has partnered with the likes of PayZapp, a complete payment solutions app and Chill, a multi bank mobile payments app, other banks like Yes Bank have partnered with Free Charge and PhonePe. The alliance gives the banks easy access to technology while also providing start ups an access to the banks database. Innovation lab to help start ups scale.
- 2. Accelerating Entrepreneurship:** On a par in popularity with innovation labs is the launch of accelerator programmes. Leading banks are partnering with leaders in the start-up ecosystem to launch accelerator programmes that require the bank to be actively involved in the mentoring of start ups, in exchange for equity and the promise of access to funding. YES bank has launched the YES FINTECH accelerator programme in partnership with T- Hub and Anthill Ventures. The programme currently has over 10 start ups in its inaugural cohort.
- 3. The Rural Push:** Realizing the need of penetrating into the corners of the country and turning them into cashless cities, banks are working towards programmes in alliance with the Pradhan Mantri Jan Dhan Yojana, which promotes opening of accounts with zero balance. ICICI bank has been making inroads, ensuring that technology is accessible in rural areas. The bank announced the setting up of the ICICI digital village at Akodara in Sabarkantha district of Gujarat, adding that it has turned the village into a cashless economy.
- 4. Smarter Services for faster Growth:** Another way of attracting more customers through innovation has been the launch of services by a bank that promises faster processes to a consumer. YES Bank has rolled out an initiative like SIM Pay, a service that allows a consumer to transfer money, pay bills and use other bank services, without access to the internet. Similarly, ICICI bank's pocket app eliminates the need to visit a bank and targets the mobile first generation. With over 5 million downloads on Google play store, the app creates instant accounts for consumers.

VII. TRENDS IN MODERN BANKING

Today's bank doesn't look a whole lot like yesterday's bank. From smart technology to online and mobile banking, how customers interact with their financial institutions is more revolving door than teller wall. Innovation lab let banks experiment with new ideas.

- ★ **Innovation Labs:** All those creative branch redesigns, smart technologies and seamless mobile tools have to come from somewhere. That somewhere is usually an innovation lab, a technique employed by a number of major banking institutions across the country. These labs are where designers can test out their new ideas on employees and consumers alike. Labs are often futuristic, over-the-top centers full of toys and gadgets, all in the hopes that something sticks and can make it into bank branches all over.
- ★ **Faster Queues:** Standing in line is one of the worst parts of the bank experience. That is no more, however, the trend as the digital queue management system. One popular option, QMatic, lets bank customers join a digital queue before they arrive at the branch, or even book appointments ahead of time. This technology can remove long lines at the branch and increase customer satisfaction.
- ★ **Interactive Tools:** Gone are the days of standing around waiting to be helped. Banks are now providing a number of interactive tools for consumers and this is one trend in the industry. Some options include free use of tablets, computers and the internet. A massive touch screen where consumers can click around industry news and events while they wait to be served.
- ★ **The Teller Kiosk:** This is why so many branches are doing away with the idea in favor of much cooler teller kiosks. Kiosks are self contained pods where tellers can perform a wide range of functions for the consumers. Where the cool factor really kicks in is with the options kiosks afford in the way of a branch redesign. Without being down by the wall, banks can get creative with their design and really change the look and feel of their branches.
- ★ **Multiple Services:** Traditionally, banks were only there for banking. Today, banks are also offering coffee shops and restaurants as a new approach, so consumers can grab a cup of coffee while they make a deposit. The branch design here is focused on coffee shop, not the bank, so it does not look like your average branch.

- ★ **Smart Technology:** Technology can do a lot to improve the consumer experience. This smart bit of design senses when a person walks through the door, sounding a greeting and bringing up an interactive screen where the consumer can check out the branch products and services.

Table 4: Technological Milestones in Indian Banks

Sl. No.	1980	1990	2000-10	2011-2018
1	MICR	ATMs	IMPS	Bio Metrics
2	Standard Cheques	Electronic Funds Transfer	RTGS	Mobile Banking
3	Encoders	Branch Connectivity	NEFT	Cheque Truncation
4	-	Computerization	NECS	UPI
5	-	-	Online Banking	USSD
6	-	-	Tele Banking	E-Wallet

Source: ICAI

Indian government is aggressively promoting digital transactions. The launch of United Payments Interface (UPI) and Bharat Interface for Money (BHIM) by National Payments Corporation of India (NPCI) are significant steps for innovation in the payment systems domain. UPI is a mobile interface where people can make instant funds transfer between accounts in different banks on the basis of virtual address without mentioning the bank account. Today banks aim to provide fast, accurate and quality banking experience to their customers. Now a day the topmost agenda for all the banks in India is digitalization.

VIII. FINDINGS OF THE STUDY

1. Advances in technology and the wide spread use of the internet, services and credit facilities have led to significant innovations in the banking industry.
2. Financial sector is moving towards a scenario, where it can have new instruments along with liquidity and safety.
3. The use of technology in banking has brought the biggest paradigm change in their operations.
4. In the present digital age and hyper connected environment, banks have to improve their processes and procedures continuously.

IX. SUGGESTIONS

1. Organizational cultures must be shifted to support innovations that will impact increasingly outdated business models. Banks must anticipate consumer needs and innovate in ways that will prioritize the most effective mix of capabilities, process and people.
2. Indian banks need to aspire and move towards implementing a world class internet banking capability.
3. Banks need to clearly articulate and measure the expected benefits from the winning strategies which would be dependent on the various initiatives provide customers.
4. The right and precise categorization of the business bank products will help the innovation process.

X. CONCLUSION

New age banking will solve the customer’s daily life problems with just a few swipes and be tightly integrated within the customer journey. The service delivery center will enable emerging technologies to power business use cases and collaborate effectively with other service providers in the digital ecosystem. While embarking on this journey, banks should do so ethically in the best interests of their customers. After all no technological advancements and investments can earn or replace something earned over a period of decades: trust. The bank of the future should be seen as a trusted store that offers end to end services to its customers.

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