Indian Banking: The new Horizons

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Abstract: Bank is an establishment that makes to individuals such advances of money as may be required, safely made available, and to which individuals entrust money when not needed by them for use. A bank has several functions like borrowing and lending money in terms of deposit and loan. Modern banking system has changed from traditional money lending to ultimate loan system where customer can easily avail. The changes have developed from time to time according to the customer needs and expectations. The modern banker tries to update the system by the best use of technology and provides an ultimate solution for the public demand. This paper is particularly pertaining to the theoretical review of both traditional and modern system of banking where changes have been brought in a systematic way.

Keywords*:* Credit, Hundi, Usury, Money lender, Loans, ATM, Technology.

I. INTRODUCTION

A bank is an establishment that makes to individuals such advances of money as may be required, safely made available, and to which individuals entrust money when not needed by them for use (Hosking, 1993). A bank borrows by accepting deposits of money from the public. These deposits are to be repaid on demand or after fixed period. The depositors can withdraw them by cheque, draft, order or any other way. A bank accepts deposits (i.e. borrows) for the purpose of lending mainly to traders, industrialists, manufacturers, and the like as also, for the purpose of investing in government securities to fulfil statutory obligations. Even worse for today's bankers is the fact that even though banks are conceived as financial intermediary that accept deposits and lent those funds, they have widely differing views on what a bank is, and will be in the future. Most of today's commercial banks have seemingly sought either to become more comprehensive in their coverage of the financial sector, or to find a profitable niche on which to capitalise.

A Banker is one who in the ordinary course of his business, honours cheque drawn upon him by persons from and for whom he receives money on current accounts. No person or body corporate or otherwise can be a banker, who does not: 1) take deposit accounts, 2) take current accounts, 3) issue and pay cheques and, 4) collect cheques for his customers. In this way, a person or an association (whether incorporated or not) performing the above four functions can be called a banker.

Bankers have nowadays, to deal with a large number of services. They serve in many ways ranging from that of acting as the custodians of stocks shares and valuables to that of getting involved in the import-export business of a

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country. The bankers also advance money on securities, and issue letters of credit, travellers' cheques, credit cards and circular notes to customers wishing to travel abroad, as also to affect purchases and shipment of goods. Banks are often required to countersign indemnities and guarantees given by their customers, and they undertake the administration of estates, thus assuming the position of trustees. Elsewhere, banks are even engaged in the service of obtaining passports for their customers, and deal with their incoming mail. On behalf of the customers some Banks in the West also carry on correspondence with income-tax authorities, make periodical payments and, on instructions from their customers, act as executors of their customers' will (Tannan, 1993).

II. BANKING SERVICES IN INDIA- THE TRADITIONAL PERSPECTIVE

Banking services in India has made remarkable progress since Independence. It has undergone a major transformation class banking to mass banking (Tingalaya, 1997). From times immemorial, the banker has been an in-dispensable pillar of Indian society. He may have been missing, for ought we to know, in the good old days, when self-sufficiency was the law of the land. The introduction of the division of labour however brought in its wake the use of money, without which there was a peculiar complexity and trouble in the matter of exchange. Money economy, in its turn, could not do without the institution of banking for any considerable lime.

2.1. "CREDIT" in Ancient India: There is plenty of evidence to show, that even prior to the advent of accidental ideas, India was not a stranger to the conception of banking. Loans and usury were well understood in those days *and Rishis* (who, we should always remember, were worldly men in those days and not hermits or anchorites) occasionally laments their state of indebtedness with the simplicity of primitive times. Reference is often made to debts contracted at dicing. To pay off a debt was called *Rnam Sam.* Illusions are also made to debts contracted without intention of payment. This shows that the giving and taking of credit in one form or other must have existed in India as early as the *Vedic* period (Datta, 1990).

The ancient Indian philosopher Manu devoted explicitly on the subject of deposits and pledges. According to Manu, "A sensible man should deposit his money with a person of good family, of good conduct, well-acquainted with the law, veracious, having many relatives wealthy and honourable *(Arya)". Manu* further gives us rules, which governed the policy, of loans and rates of interest. Sir Richard Temple (1881) testifies to the fact, that banking business was carried on in ancient India. However, banking in those days meant largely money lending, financing kings during the wars, though certain rudiments of modern banking functions were not unknown to the then bankers (Vaish, 1978).

2.2. The "HUNDI" Banking: It means the collection of debts. The word hundi is said to have been derived from the Sanskrit root "hundi" meaning, "to collect". Its derivation expresses the purposes for which originally such instruments were, used. The public confidence enjoyed by the ancient Indian banker can well be realized from the fact that the hundis (inland bills of exchange) date back to the days of the *Mahabharata.* Hundis were quite in vogue during the middle Ages. According to another tradition, Bastupal Tejpal drew a hundi for rupees ten cores on the Nagar Seth (city banker) of Ahmedabad, India, and the temples of Dilwara were built with that money (Tannan, 1993).

In modern times, the bills of exchange used for the collection of debts, are nothing but an extension of the ancient “Hundi” concept. For instance, when a merchant X sells goods to a merchant in Y, the former draws a bill of exchange on the latter so as to collect the price of those goods. Similarly, when a merchant desires to collect a debt, due from a merchant B, the former may draw a hundi for the amount upon the latter. Probably strangers to the use of paper money, the Indians had been using the hundi from very remote times. Among them, the banking business was confined to the issue and discount of bills of exchange, money lending and money changing. Very often, banking business was carried on along with dealings in grains, cloth etc. or with agency business. The importance of the part played 'by the banker in commercial markets, as well as in agricultural circles, cannot be denied. The transfer of funds from one place to another, at a fair distance, took place with the help of the hundis.

2.3. “Usury”: Usury, or high rate of interest, was widely prevalent in India. In Bengal, money was frequently lent to farmers at forty, and sometimes, even at sixty per cent, per annum, while the standing crop was mortgaged for repayment of the loan. Most writers attribute usury to the state of insecurity in India, and the risk involved on account of the low financial status of the borrowers. No doubt, these factors played a great part, but they were not invariably the only causes. The force of custom and limited communications barred the free play of economic forces of supply and demand. The adjustment of scales in such a state of society could not be as quick as it is with modern facilities.

2.4. The “Moneylender”: “Banking is my brain and other people's money”-says a traditional moneylender. The moneylender in the last millennium has exploited the poor artisans and farmers of rural India. The moneylender seems to enjoy the monopoly over the interest rates on the small loans provided to these poor people, who in turn become poorer by loosing all their possessions against the payment of interests. Even after the introduction of Banking System, and subsequent nationalization of major Indian banks, the moneylender used to run a parallel establishment of personal banking. For quite some time the Indian banker had comparatively a little of deposit or discount business, or dealings in other people's money, which is the unfailing characteristic of modern banking today. Thus, the western bankers often comment the Indian bankers to be carrying out the traditional money lending business, not offering banking service.

2.5. Loans: Banker’s first customers are those who avail loans who will approach the bank with personal, as well as other securities such as ornaments, goods and immovable property. For everyday loans, the banker's knowledge of individual customers and their financial position on account of the narrow circle in which these transactions are carried out, seem to be more useful. The modern commercial banks are practically impersonal in their character, and are hedged round with many formalities, thereby sometimes annihilating their utility at the critical moment. The personal relations between the banker and his customers should be of a cordial nature. Further, cheap and timely availability of credit helps producers in getting things produced at a lower cost (Edward, 1968).

2.6. "Commercial Banking": Commercial banking plays an important role in directing the affairs of the economy in various ways. As a matter of fact the operations of Commercial Banks record the economic pulse of the country. The size and composition of their transactions mirror the economic happenings in a country. Long back, the well-known 19th Century economist David Ricardo said that a bank was a dealer or transactor in money. Banks are thus financial intermediaries collecting "Deposits" and lending "Loans". But now they are not only the purveyors of money but also the creators or manufacturers of money in a financial system (Sayers, 1958). It is the banks that set the tempo of aggregate economic activity in any economy. The dependence of commerce upon banking has become so great that in a modern money economy, the cessation, even for a day or two, of the banker's activities, would completely paralyse the economic life of a nation. Strangely, the purpose of establishing the bank was not to serve the Indian economy but to sub serves the British interest in the colonial regime.

III. BANKING SERVICES IN INDIA- THE MODERN PERSPECTIVE

In short, the modern banks do all they can to assist their customers. The more highly developed a country is, the greater is the instrumentality of the banker utilized to carry through commercial transactions. From its original narrow scope and modest purpose, banking has developed to such an extent that it can truly be said that in countries, such as England and the United States of America, there is hardly a single business deal in which the assistance in one form or another of a bank is not sought for. To evolve a successful marketing plan, banks should adhere to the following principles.

3.1. Customer Care: Every bank today realizes that the customers are the ambassadors of spreading the message about a banks products and services. Hence to win a new client, a bank should create a satisfied customer base. This calls for a 'CARE' approach i.e. show Courtesy, ensure Accuracy, be Responsible and execute the task Efficiency, while dealing with a customer. A bank also has to fulfil hidden need of its customers and devise new products/service accordingly.

3.2. Technology Friendly: Only those banks, which have been successful in adopting the new user (customer) friendly technology, are going to survive in the banking business, since the current era is witnessed by rapid technological changes. Technology has been a cutting edge for banks to provide faster and more efficient services. Present day customers, especially high-profile metro-urban clientele (60% of the country's banking business comes from the city of Mumbai) wish to have access to deposits, take loans and transfer funds electronically. Thus 'Any Time Money' and 'Anywhere banking' have become the most popular modes of banking in the New Millennium.

3.3. Banker's Role as a 'Specialist': The vital principle that a modern bank has to adopt is that of developing the qualities of a 'Specialist'. A bank has to forget now, the earlier practice in which it was identified as 'branch of all-trade'. Present-day bank relies more on the creation of branches dedicated to specific lines of business and specific customers. As the numbers of competitors are increasing, clients may opt for the best service, setting aside the traditional banker-customer relationships that covers every service. Customers are looking for the best bank today in each area of business rather than depending upon any one as a one-stop shop. So the basic strategy for a bank has shifted to that of acting as specialists in that customer segment where they seem to be strong. For this, it has to deploy people with specialised skills: mindless job rotation between different functions/divisions will hamper the development of specialisation.

3.4. Niche Marketing: Niching connotes the ability of banks to offer a product/service specifically to meet a potential or an existing market demand, which has not yet been matched by a corresponding supply. For doing this, a bank has to bank upon its strengths to be niche oriented. To quote an example, it is high time now that the Public Sector Banks should now use their branch network and the resultant accessibility to retail services to do 'niching' more vigorously. Niche marketing offers wider scope for banks in the area of non-fund based business: leasing, hire purchase, loan syndication, securitisation mortgage, credit cards, forfeiting, etc. Through majority of the banks have entered into these areas, lot of untapped potentials lie in the case of fee based business – they still account for just 14 percent of the total income of the country's banks.

3.5. 'SWIFT' Actions: A computerised web connecting all the branches and devising other technology oriented products/ services can bring better results. Foreign banks and new private banks are already in the process of taking a bank to customer by way of Tele banking, credit cards, ATMs, etc. A number of banks are now hooked on to the Society for World-wide Inter Bank Financial Telecommunication (SWIFT) – a computerised network that links 3,000 banks in 80 countries. This will not only enable global retail banking but also enable international commercial functions to execute at high speed. So, while a customer will gain from national and international accessibility, banks will gain from a vastly extended reach at a lower cost than that of opening a branch. This is no doubt a boost for private and foreign banks handicapped by a limited branch network. Apart from this, technology will pave way for reducing physical traffic in branches and ensuring effective housekeeping. In short, by investing in technology, a bank can definitely crave a niche for itself (Bhide, 1997).

3.6. Revamping Workplace and Refining Workforce: Though technology may be playing a crucial role in banking, an overwhelming majority of Indian customers may not be touched by this new banking culture, given their obsession towards personalised service (Vaidya & Sunderam, 1997). Moreover, there are activities such as account opening and other relationship banking activities for which face to face interaction is all the more important. The bank branch thus remains an important aspect of banking activity and became a bank's public face. This necessitates high investments in refurbishing premises. A well furnish premises is a must for satisfaction of both employees and customers (Jayaram, 1993). People are the most important asset in any organisation (Datta, 1990). A marketing mindset has to create among the employees. The calls for flexible approach in case of recruitment and determining pay scales of employees. Attitudinal training may also be playing its own role in shaping the employees in tune with the liberalised environment. A professionalised, well-trained and motivated workforce will improve the marketing ability of a bank (Govindarajulu, 1996).

3.7. Cost Consciousness: The ability to raise money cheaply indicates the difference between a marginal bank and a successful bank. A bank has to strategies ways to cut the cost of its deposits, while pushing up income. Though interest rates or advances are deregulated, banks cannot go for a high interest rate considering the risk of default. So, banks may be forced to concentrate on retail deposits; the RBI no longer bearing foreign exchange risks on NRI deposits, concentration of Rupees deposit may be a of mush use to banks. In short, structuring asset liability portfolios in relation to maturity and interest rates is yet another survival strategy.

3.8. Societal Banking: Being the heart of financial activities in the country, banks should have some societal obligations too. Though societal banking is having its own cost too, it should be accounted as a part of the investment in the image building exercise of the bank. Apart from inculcating banking habits, persuasive lending, etc., a modern bank has to concentrate on banking business in the areas of education and research, health care, both for targeted people and society at large.

IV. EMERGING BANKING TECHNOLOGY

For every industry, each decade is blessed with a particular buzzword or a set thereof. In respect of financial sector in general and banking industry in particular, the pride of place has been occupied by the word "Technology". The technological advancement, the world-over, is so rapid and widespread that isolating banking and technology from each other is nearly an impossible proposition (Godse, 1997). Saraf (1997) mentioned that the competition has put pressure on banks to improve customer service and work for image building. The big banks have poor record on customer service. Delays in rendering service at the counters, delay in attending to collection items, indifference towards customers, are some of the factors, which need improvement. It is true that the age-old systems and procedures have inherent weakness, which glaringly comes to the fore with growing volumes of work. It is also true that banks have to rely on other agencies in carrying out their functions like outstation collections.

All the same, banks can substantially reduce delays by adopting technology in operations and displaying friendly attitude towards small customers. Generally, an average Indian customer would stick to his bank as a lifelong partner for banking needs. This attitudinal attribute needs to be positively reciprocated by the bank staff by timeliness in service and friendly disposition (Despande, 1997). Bhide(1997) quoted an analysis by the computer giant IBM, which predicts that over the next decade, the pace of technological innovation would reinforce Darwin's law of the 'survival of the fittest' and as a result, Europe would lose at least 25% (about 2300) of its banks through mergers and acquisitions. Needless to mention, the law would equally apply to this subcontinent too. Would Indian Banks then be able to withstand the pressures of competition?

4.1. Technological Innovation in Indian Banking: The recent years witnessed, the Indian Banking on a technological upswing (Ravindran, 1998). Some of the innovations that are made possible on account of infusion of technology are as follows:

4.1.1. Total Branch Automation: Total Branch Automation (TBA) enables customers to transact all his banking needs through a single counter instead of going to different counters in the premises. TBA helps significantly in improving the efficiency of operations.

4.1.2. Customer Related Automation: The traditional strengths of market knowledge, branch network, quality of staff and long-term relationships need to be urgently reinforced with solutions to meet the changing needs of customers (Vaidya & Sundaram, 1997). These needs have migrated from efficient, personalised in-branch service for basic banking requirements to value-added servicing for the same requirements. Thus, the elements of account/product information/enquiry and payments (including cash) are sought by customers irrespective of Location (branch/ex-branch), Timings (banking hours/round-the-clock), Geographical boundaries (city /state/national/ international), Access mode (in person/telephone/PC) and Providing settlement flexibility (ATM cash/credit card/debit card, etc.). These needs have evolved due to growing globalisation with international travel for business/personal purpose, non-resident status, increasing expatriate community and focus on technology in various sectors e.g. Telecom industry enhancing mobility/flexibility with cellular telephones, pagers and the recently launched WLL(Wireless Local Loop) communication system. While it is feasible to carry out automation to its logical perfection in respect of industrial operation, it is not so in regard to the operation and the service organisation like Government, Banking etc. This obviously is due to the fact that all the three components (Integration, Feedback Control and Computer Technology) cannot be made operative (at alone simultaneously) in regard to the entire gamut of bank's operations. Apparently, even today the operations of the banks cannot be considered to have reached the stage of automation as part of the banking operations are still manual, in spite of major computerisation undertaken by the banks. Ideally, it could be a goal set-up by the banks to be achieved in the new millennium.

4.1.3. Automated Teller Machines: ATMs are capable of performing the function of a bank teller or a cashier viz., dispensing cash, answering account related enquiries, ordering a new cheque book, providing statements of account etc.

4.1.4. Electronic Funds Transfer: Banks' through the technique of networking are able to transmit messages at the push of a button. Now the mail transfers and telegraphic transfer are affected within a matter of seconds.

4.1.5. Automated Cash Dispensers: These machines dispense a fixed amount of cash as soon as a pre-printed voucher is inserted in the machine.

4.1.6. Anywhere Banking: Thanks to the networking of computerized branches, customers can choose to operate their account through any branch of the bank once they become the account holder of a branch.

4.1.7. Anytime Banking: The ATM facilities enable customers to transact with the bank anytime of the day all through the 24 hours.

4.1.8. Home Banking: Efforts are underway whereby a customer can route most of the transactions through his/her personal computer, which will be up-linked with the mainframe computer of the bank.

4.1.9. Telebanking: Telebanking facility enables the customer to use Automatic Voice recorder for simpler queries; like balance in the account, request for a chequebook, standing instruction etc. The customer can do many of their non-cash related transaction over phone.

4.1.10. Plastic Cards: Credit Cards as method of payment without the use of cash or cheque is gradually giving way to improved versions such s debit cards, smart cards, co-branded cards.

4.1.11. Smart Cards: Smart cards are likely to appear on a mass scale worldwide in the next decade or so and will affect many areas of our lives. What is a Smart Card? To someone accustomed to carrying a credit card or a bankcard, a smart card may appear to be no different. However, the appearance is deceptive because the smart card is not just another bankcard but a new generation portable computer (Jalpuriyar, 1997).

V. CONCLUSION

In the emerging scenario, a professional banker has to understand the dynamics of new developments taking place in the field of commercial banking and has to equip itself with the technical and professional skill, and competence to operate successfully in the changing competitive environment. The times have changed, and Indian indigenous banking of the "good old days", has undergone many alterations, on account of the different forms, functions and the extreme complexity of modern business. All the same, the old system still retains its importance, though not to the same degree. The payment of taxes in cash, better means of communications and transportation, uniform currency, the unification of the country under one central government, the development of the co-operative movement, and the establishment of joint stock banks, have taken away a good deal of business from the hands of the Indian money-lender; still it cannot be denied even today, Banks occupies an important place in the credit organisation of the country.

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