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INNOVATIVE PRACTICES IN INDIAN BANKING INDUSTRY

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1. HISTORY OF BANKING

Banking in India originated with The General Bank of India which came into existence in 1786. This was followed by Bank of Hindustan which was established in 1870. Both these banks are now defunct. Banking in India on modern lines started with the establishment of three presidency banks under Presidency Bank's Act 1876 i.e. Bank of Calcutta, Bank of Bombay and Bank of Madras. In 1921, all presidency banks were amalgamated to form the Imperial Bank of India. State bank of India the biggest commercial bank in India was formed in 1955 by passing of State Bank of India Act 1955, and entire assets and liabilities of Imperial bank of India was taken over.

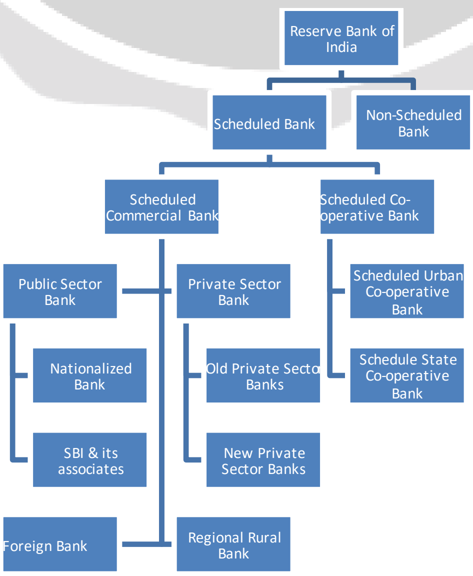
A couple of decades later, foreign banks like HSBC and Credit Lyonnais started their Calcutta operations in the 1850s. At that point of time, Calcutta was the most active trading port, mainly due to the trade of the British Empire, and due to which banking activity took roots there and prospered. The first fully Indian owned bank was the Allahabad Bank set up in 1865.

By the 1900s, the market expanded with the establishment of banks like Punjab National Bank, in 1895 in Lahore; Bank of India, in 1906, in Mumbai - both of which were founded under private ownership. Indian banking sector was formally regulated by Reserve Bank of India from 1935. After India's independence in 1947, the Reserve Bank was nationalized and given broader powers.

In the early 1990s the then Narasimha Rao government embarked on a policy of liberalisation and gave licenses to a small number of private banks, which came to be known as New Generation tech-savvy banks, which included banks like ICICI Bank and HDFC Bank.

2. STRUCTURE OF BANKING IN INDIA

The Indian banking system consists of 26 public sector banks, 25 private sector banks, 43 foreign banks, 56 regional rural banks, 1,589 urban cooperative banks and 93,550 rural cooperative banks, in addition to cooperative credit institutions.



3. PRESENT STATE OF INDIAN BANKING INDUSTRY

Public-sector banks control nearly 80 percent of the market, thereby leaving comparatively much smaller shares for its private peers. As of November 11, 2015, 192.1 million accounts had been opened under Pradhan Mantri Jan Dhan Yojna (PMJDY) and 165.1 million RuPay debit cards were issued. These new accounts have mustered deposits worth Rs 26,819 crore (US$ 4 billion). Standard & Poor's estimates that credit growth in India's banking sector would improve to 12-13 per cent in FY16 from less than 10 per cent in the second half of CY14.

3.1 Financial Inclusion and Technological Transformation in Banking

Indian banking industry is witnessing many technological changes. This aids the banks to provide quality service and help the organization to reach a wide number of customers. As per World Bank Survey conducted in 2013, only 35 per cent of all adults in India had a bank account with a formal banking institution, while this figure stood at 21 per cent in the poorest income quantile. This represents a massive opening that financial institutions in the country can leverage upon for future growth. Further, the policies of the Reserve Bank have prioritised financial inclusion, presenting an opportunity that might not manifest itself again. The Indian government has advised banks to open at least one branch in villages with a population of more than 2,000, and also cover the peripheral villages. Banks are also required to formulate a board approved Financial Inclusion Plan (FIP), the implementation of which will be monitored by the RBI. The Indian government can bring in financial inclusion by setting up ATMs and providing mobile/online banking facilities. Further, experts suggest that the number of ATMs need to increase by 5 times to reach 160,000-190,000 in the coming decade. The mobile banking channel in India is also untapped, with close to 900 million mobile connections, and only 400 million bank accounts. With mobile connections expected to grow to 1,150 million by 2020, mobile banking is a key growth prospect and an important channel for financial inclusion.

3.2 Customer Experience Management

Customer Experience Management (CEM) helps banks maintain personalized and contextual interactions with their customers in real-time. CEM learns from transactions, interactions, and responses to arrive at right conversation pointers, right messages and right sale opportunity

It also helps the customer facing staff make intelligent and relevant conversations. It thus enables banks to proactively improve customer experiences across all channels of communication. The following are the features of customer experience management.

- Delivers instant contextual intelligence across all banking channels
- Powers every customer interaction of the bank with complete customer understanding
- Derives customer insights from multiple backend systems digested in real-time
- Empowers the bank employees to provide the best service to its customers over every interaction effectively.

The following are the benefits of customer experience management.

- Increased revenue across channels through contextual cross-sell/up-sell
- Enhanced Customer Satisfaction & Net Promoter Score
- Reduced Customer Turn-Around-Time (TAT)
- Increased Employee Productivity

3.3 Differential Branding

In highly saturated and competitive markets, banking companies are looking for ways to differentiate themselves beyond just the price and avoid a race to the bottom. They invest lots of time and money designing what they think is a unique identity. Following the financial crisis which portrayed the banks in bad light they even doubled their marketing efforts in creating a better looking identity. That identity is meant to appeal to customers, bring the bank to their front of mind and essentially positively affect their market share and profitability.

However creating a brand that is perceived to be the best and offer better value than competitors is a real challenge when the market is mature and products are perceived to be commodities. So it pays, literally, to give customers a reason to think your bank is the best. However many organizations are missing one critical aspect of developing a truly differentiated brand: behavior.

Every bank says that it cares about its customers, that it provides excellent services, and that its products are good for customers. Most of them are right. But how many banks can prove it every day with every customer?

Here's an example from the banking industry that Gallup gives: Bank A has branded itself as a community bank. Its organizational goal is to promote a sense of engagement in customers. Accordingly, all its print and billboard advertisements feature photos of local places. It sponsors and supports local schools' athletic teams, and it funds community organizations that, in turn, prominently display Bank A's logo in their materials

3.4 Customer 3.0

Customer 3.0 is a hyper-connected and shared-experience generation that a day to day banking cannot neglect. The vanishing of book sellers and music companies illustrates the impact Customer 3.0 can have on readymade products and services that don't adapt to their needs: if they can't find the price or the features they search for, Customer 3.0 will move on and find it somewhere. To survive, the day to day Bank must embrace the need to innovate. Customer 3.0 is not defined by a specific age or gender mix. Instead these customers are defined by their ability to adopt and apply new technologies to meet their individual needs. They are highly informed (78% of Smartphone owners use their phone to help with shopping), price sensitive (64% will go 5 to10 minutes out of their way to secure a better price) and socially connected (social media accounts for 20% of personal computer time and 30% of mobile time). To stay in the game, the day to day Bank must:

- Engage whenever and wherever Customer 3.0 decides, enabling multi-channel distribution channels and complete integration of digital interactions
- Change the way products are created – collaborating with non-financial (and other financial) services players to generate relevant offers and experiences and provide a full suite of generic to fully personalized offerings at various price points
- Deliver innovative and tailored experiences – using analytics to gain greater insights in customer behaviour enabling delivery of customized and relevant experiences at scale
- Reward loyalty – build rewards and ecosystems to improve customer "stickiness"

3.5 Simplifying Engagement

Drastic change in the banking industry and the behavior of customers pushes banks cop up with the industry. Gone are the days where everything was complex starting from, filling the form, money transfer, etc by standing in the queue. Customers are now looking for those products and companies that can simplify their livelihood.

Simplicity is mutually beneficial to both the parties' i.e. customers and banks. In this digital generation where people are always online and busy, expect banks to make their banking experience easier. Customers these days are demanding greater personalization, flexibility, better value, improved service, choice and control. Banks need to re-evaluate their assumptions and fundamentally change how they interact with their customers. Giving more power to customers by making them have greater control over their money may be uncomfortable to banks, but in the long run it will fetch great result and success.

To simply engagement with customers, banks have introduced multi-channel banking. Multi-channel banking is the buzzword in today's banking world; the banks are competing to increase their reach by adding new customer touch points, including laptops, PCs, mobile phones, tablets, smart ATMs. Banking on the go is one of the basic needs of this tech savvy, young population

4. CONCLUSION

To sum up, the forth coming years for Indian industry will witness a transition in terms of technology and will also move faster from a seller's to a buyer's market. It will also see paradigm shift from local area to global operations. These changes will compel a major re-engineering of the market forces and players. We may also be witnessing a number of Indian companies which assisting and utilising this restructuring of banking industry. To add to this technological change a quite large number of mergers, acquisitions, take-overs, disinvestments and buy-backs may happen in Indian banking industry. To conclude Indian banking industry will operate with new concepts and benchmarks. The outcome of these may be witnessed by customer in terms of quality service at a cheaper operating cost.

5. REFERENCE

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