CHAPTER 1

INTRODUCTION

Introduction
To have a healthy economy, a sound and effective banking system in India is essential. The banking system of India should be able to meet the new challenges posed by technology, internal as well as external factors and also be hassle free.

It is essential to understand some key terms which will be helpful to understand the research work. Therefore, this chapter is divided into two parts viz. a. Understanding important terms b. Conceptual Development

Part A

1.1 Understanding important terms

1.1.1 Impact study
“The positive and negative changes produced by a development intervention, directly or indirectly, intended or unintended”.[1]

1.1.2 Bank
“A bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly or through capital market. A bank connects customers with capital deficits to customers with capital surpluses”. [2]

1.1.3 Banking
Section 5(b) of the Banking Regulation Act 1949, defines banking as “accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and with drawable, by cheque, draft, order or otherwise”. [3]
1.1.4 **Core Banking System**

Core banking System (CBS) or Centralized banking is maintaining centralized database of all the functionalities of bank at single location with the help of Information technology infrastructure and by the way of interconnecting its branches through available telecommunication channels. Banks are making all out efforts to have complete CBS system integration with multiple delivery channels. CBS is a progression of branch computerization where physical entries in ledgers are replaced with electronic posting. Implementing core banking requires a change in the work flow.

The entire business of banking essentially deals with information. CBS places this information at the fingertips of bankers. Secondly, the banker can enable the customers to access the bank through preferred channel. This is possible because core banking software allows the bank to plug in any channel for eg. internet banking, mobile banking, phone banking or ATM networks to the centralized banking software. This in turn, vastly increases the capacity of the bank to handle customers.

The greatest benefit to customers is the availability of anywhere, anytime banking. The customer can access his account through the channel of his choice, usually from anywhere in the country and at anytime. The customer ceases to be the customer of a branch, but becomes the bank's customer. In addition to providing easy access to services that were already there, CBS enables customers to access new services such as instantaneous transfer of funds, online bill payment and online broking. The back office activities are handled through technology at a remote data centre. This frees the branch staff to spend more time on customers. Unlike in the past, banks do not have separate ‘office hours and customer hours’. Also, because most of the activities turn into self service - cash withdrawals, funds transfer, etc. bank
employees have more time to sell third party products such as mutual funds and insurance.

1.1.5 **Delivery Channels**[^4]

Delivery channels can be classified into two major groups viz. the traditional channels and electronic channels (e-channels). The traditional channels are defined on the basis of the type of human assistance for eg. teller, retail or corporate manager required for delivery of service.

An electronic delivery channel is one in which the delivery of banking product is made through an electronic medium. Electronic channels can be further classified into sub-groups on the basis of how the channel is seen by customers, with some exceptions based on the technological processes of transaction execution:

- Internet-based (on-line bank)
- Card-related (ATM and POS – payment terminal),
- Phone channels (call centre, IVR, mobile bank) and
- Automated channels (“virtual” bank core channels where direct debit and incoming payments are effected).

Banking delivery channels typically consist of traditional channels like the branch and now electronic delivery channels. Delivery channels use methods for providing banking services directly to customers. These include internet banking channel, m-banking, intelligent electronic device, ATM, e-kiosk, or touch tone telephone credit cards, debit cards, credit cards etc. These are also referred to as alternate delivery channels or e-delivery channels.

1.1.6 **E-banking**

According to Basel Committee on banking supervision, (1998 and 2003) “e-banking is defined as the provision of retail and small value banking products and services through electronic channels. Such products and services can include deposit taking, lending, account management, the
provision of financial advice, electronic bill payment, and the provision of other electronic payment products and services such as electronic money”.

1.1.7 **Profit**

Profit refers to the net earnings. In other words, it is simply revenue minus expenditure. It reflects the actual earnings of the business and is an absolute figure.

1.1.8 **Profitability**

Profitability is a profit earning capacity of a product, plant, process or an undertaking. It is typically expressed as a percentage in relation to the sales or capital employed.

Profitability is the primary goal of all business ventures. Without profitability the business will not survive in the long run. So measuring current and past profitability and projecting future profitability is very important. Profitability is measured with income and expenses. Income is money generated from the banking activities. Expenses are the cost of resources used up or consumed by the banking activities. Whether it is recording of profitability for the past period or projecting profitability for the coming period, measuring profitability is the most important measure of the success of banking. Banks that are not profitable cannot survive. Conversely, banks that are highly profitable have the ability to reward their owners with a large return on their investment.

1.1.9 **Bank Customer**

The Talwar Committee Report of 1976, defines a customer as “customer can be defined as a user or potential user of banking services”. A customer would include an account holder, or his representative, or a person carrying out casual business transactions with a bank, or a person who, on his own initiative, may come within the banking fold.
1.1.10 Retail Banking

“Typically, retail banking services begin with a target clientele which is the common masses and it slowly graduates through a stage which can be called as ‘class retail banking.’ The ‘mass retail banking’ is the stage in which the bank provides standardized banking products and services to its customers. In this phase the banks attempt to build a sufficiently broad customer base which can serve as a stable source of funding. The ‘class retail banking’ on the other hand, is the stage in which the bank offers customized products and services targeted at a niche customer segment, the high net worth individuals. Retail banking focused solely at a niche customer segment may also be termed as private banking”.[10]

1.1.11 Customer services[11][12]

Customer service is the overall activity of identifying and satisfying customer needs. Customer service is obviously important to banks. Banks must have “smart banking” branch design and strategy to integrate the ultimate in self service branches with plans for seamless connections to anytime mobile, ATM and Internet services. Thus, banks are required to become more and more customer focused to survive in a competitive environment.

From Wikipedia, the free encyclopedia, Turban et al (2002), defines customer services as “Customer services is a series of activities designed to enhance the level of customer satisfaction – that is the feeling that a product or service has met the customer expectation”.

1.1.12 Pune[13][14][15][16]

Pune district is located between 17.5° to 19.2° North and 73.2° to 75.1° East. Pune is the seventh largest metropolis in India, the second largest in the state of Maharashtra after Mumbai. Once the centre of power of the Maratha Empire, it is situated 560 meters above sea level on the Deccan plateau at the confluence of the Mula and Mutha rivers. In Pune district, there are two
municipal corporations, namely Pune Municipal Corporation (PMC) and Pimpri-Chinchwad Municipal Corporation (PCMC). Pune district covers 14 talukas & 13 Panchayat Samitis. There are around 1,866 villages in the district. The total road length of Pune district is 13,642 kms. Average rainfall in the district is 600 to 700 mms. Pune city is the administrative capital of Pune district.

Pune district has geographical area of 15.642 sq.km. It is bound by Ahmednagar district on north-east, Solapur district on the south-east, Satara district on south, Raigad district on the west and Thane district on the north-west. It is the second largest district in the state and covers 5.10% of the total geographical area of the state. Total population of Pune district is 72.24 lakhs, out of which 37.68 lakhs are men and 34.56 lakhs are women as per 2001 census. Population of Pune city is around 31,57,000 as per 2001 census.

Pune is a fast growing city. During 1991-2001, population of Pune increased by 50.08% compared to a growth of 40% in the previous decade. Positive aspect of Pune’s development is that its population is young. Pune has strong and diversified economic structure, which centers on auto industry, agro-based industry, education (Oxford of east), and emerging and growing IT sector.

Being one of the largest cities in India, and as a result of many colleges and universities, Pune is emerging as a prominent location for IT and manufacturing companies to expand. Pune has the seventh largest metropolitan economy and the sixth highest per capita income in the country.

1.1.13 **Indian banking system**[^17][^18][^19]

India’s banking system in the past three decades has several outstanding achievements to its credit. The Indian banking system has grown and is no
longer confined to only metropolitans or cosmopolitans in India but also has reached to the remote corners of the country. This has contributed to India’s growth process. The government’s consistent policy for Indian bank’s since 1969 has paid rich dividends mainly due to the nationalization of 14 major private banks of India. Not long ago, an account holder had to wait for hours at the bank counters for getting his banking transactions through. Today, he has several alternatives to choose from. Gone are days when the most efficient bank took two days to transfer money from one branch account to another. Now, it is simple and immediate and pretty much hassle free.

Major developments took place in the banking sector after independence. In 1948, Reserve Bank of India, India’s central banking authority, was nationalized and was owned by the Government of India. In 1949, The Banking Regulation Act was enacted. This act empowered the Reserve Bank of India (RBI) “to regulate, control, and inspect the banks in India”. The Banking Regulation Act also provided that no new bank or branch of an existing bank may be opened without a license from the RBI. Also, it provided that no two banks could have common directors. The new policy had far reaching effects on the Banking sector in India.

In the 1990’s the government embarked on a policy of liberalization. Licenses were given to a small number of private banks. These banks came to be known as “New Generation tech-savvy banks”. Global Trust Bank was the first of such new generation banks to be set up. Later this bank was amalgamated with Oriental Bank of Commerce, UTI Bank now known as Axis Bank, ICICI Bank and HDFC Bank.

Presently, the banking sector broadly consists of Scheduled Commercial Banks (SCBs) and Co-operative Banks. SCBs include public sector, private sector and foreign sector banks. Co-operative banks include State Co-operative Banks (StCBs), District Central Co-operative Banks (DCCBs),
State Co-operative Agriculture and Rural Development Banks (SCARDBs), Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) and Urban Co-operative Banks (UCBs).

SCBs form important part of the Indian banking landscape in terms of their business and outreach. Scheduled Banks in India constitute those banks which have been included in the Second Schedule of Reserve Bank of India (RBI) Act 1934. RBI in turn includes only those banks in this Schedule which satisfy the criteria laid down vide Section 42 (6) a) of the Act.

“Scheduled Banks in India” means the State Bank of India constituted under the State Bank of India Act, 1955 (23 of 1955), a subsidiary bank as defined in the State Bank of India (Subsidiary Banks) Act, 1959 (38 of 1959), a corresponding new bank constituted under Section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970), or under Section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 (40 of 1980), or any other bank being a bank included in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934) but it does not include a co-operative bank”.

“Non-scheduled Bank in India” means a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949), which is not a scheduled bank”.

In 2010-11, “India has 26 public sector banks, seven new private sector banks, 15 old private sector banks, 31 foreign banks, 86 regional rural banks, 4 local area banks, 1,721 urban co-operative banks, 31 state co-operative banks and 371 district central co-operative banks”. Thus, India’s banking industry is one of the major components of Indian economy.
Public Sector Banks
Public Sector Banks came up in a phased manner. In the first phase the Imperial Bank of India was converted into State Bank of India in 1955. 7 associated banks were taken over as SBI’s subsidiary banks. In the Second phase, 14 major commercial banks were nationalized in 1969. In 1980, 6 more commercial banks were nationalized. Government of India is the biggest shareholder in these banks. These banks are owned and controlled by the government. PSB’s work for social, economic causes and are bestowed with the burden of controlling and guiding the economy at times of inflation and deflation. PSB’s have a pan India presence and some also have an overseas presence. As on 31st March 2011 there were 26 PSBs in the country.

Private Sector Banks
For about two decades between 1969 and 1980, no new bank could be set up in India due to legal bar to that effect. The Narasimhan Committee of financial sector reforms recommended the establishment of new banks of India. The RBI thereafter issued guidelines for setting up of new private sector banks in India. In January 1993, to ensure that new banks which are financially viable and technologically up-to-date were established in the country. It was expected that these banks would be professionally managed so as to improve the image of commercial banking system. In the long run the aim was to win the confidence of the public. Eight new private sector banks were established. Some of the well known names are HDFC, ICICI and AXIS etc. As on 31st March 2011, there were 15 Old private sector banks and 7 new private sector banks. These banks are owned by private individuals or corporations and not by the government. This category consists of New Private Banks (NPs) & Old Private Banks (OPBs). The NPBs are referred to as “New Generation tech-savvy banks”. NPBs have a pan India presence and overseas presence. OPBs were encouraged by
technology driven operations of NPBs. They have a small scale and limited geographical spread of their operations and cover only few states in India.

**Foreign Banks**

Foreign commercial banks are the branches in India of the joint stock banks incorporated abroad. Foreign banks do not do mass banking and have their presence in metros and semi-metros. There were 31 foreign banks in the country as on 31-3-2011.

**Local Area Banks**

Such Banks could be promoted by individuals, companies, trusts and societies and be established as public limited companies in the private sector. The minimum paid up capital of such banks was to be 5 crores with a minimum of Rs. 2 crores promoters’ contribution. Their area of operations was restricted to three districts and they could be set up in district and towns. Punjab, Gujarat, Maharashtra and Andhra Pradesh presently have one bank each. In all, there are four functional local area banks in the country. As on 31st March 2011 there were 4 local area banks.

**Regional Rural Banks (RRBs)**

The NABARD website discusses Regional Rural Banks (RRBs) as “RRB’s were established in 1975 under the provisions of the Ordinance promulgated on the 26th September 1975 and followed by Regional Rural Banks Act, 1976 with a view to develop the rural economy and to create a supplementary channel to the ‘Co-operative Credit Structure’ with a view to enlarge institutional credit for the rural and agriculture sector”. In 2010-11 there were 86 Regional Rural Banks in the country.

**Co-operative Banks**

Apart from the commercial banks, there are co-operative banks in the country. These banks have a history of more than 100 years in India. They are present in urban as well as in rural areas and are based on the principle of
“co-operation”. They have played an important role and have contributed to the development and economy very positively. The co-operative banks have been set up under various Co-operative Societies Acts enacted by State Governments. Hence, the State Governments regulate these banks. These banks come under the purview of the RBI as well. Urban Co-operative Banks (UCBs) have been defined as a “primary Co-operative Bank” in the Banking Regulation Act 1949 (as applicable to Co-operative societies) in terms of section 5(CCV) of said act. Among various co-operative banks, UCBs play a very important role in the sustainable development of India. UCBs function in urban and semi-urban areas. UCBs cater to requirements like education, health, agriculture and rural development, Small Scale Industries, retail business etc. There were 1,721 UCBs as on 31-3-2011 in India.

Part B

1.2 Transformation of traditional banks in India

Traditional banking is the process of financial intermediation wherein the bank acts as an intermediary between the savers and the borrowers. It accepts deposits for the purpose of making loans to the borrowers as also facilitates payments as part of the country’s payment and settlement systems. The banking sector has undergone transformation over the last three decades. The banks offer among others, various non-banking financial products and services to the customers.

Over a period of time banks started looking beyond just this traditional function. With private banking coming to the fore, the element of profit became a driving force. Private banks are involved in fee-based business where financial services are offered for a price. Banks started offering general utility services and subsidiary services like lockers, dealing in foreign exchange, issuing letters of credit, and even offering insurance services.
Modern day banks use technology based services or electronic banking. The use of technology has made banking fast, with services being provided real-time and 24X7. Everything is available at a click of a button and in the comfort of the customer’s living room.

All modern day banks provide a plethora of services to their customers ranging from tele-banking to ATM and credit card services, SMS alerts, electronic fund transfers and net banking. From the traditional mould, where the services were slow and personalised they have now become fast but impersonal where there is no banker but sometimes just an automated-voice response system.

1.2.1 Evolution of banking [24] [25]

Banking in India has evolved over the years and gone through various phases. The period up to independence was a difficult period for Indian Banks. The Indian Banking has come a long way since 19th July 1969 with nationalization of major banks with the objective of channelizing the savings of the masses into productive and needy sectors of the economy. The post-nationalization period falls into three distinct phases.

Initial Phase:

During this phase the banks were primarily engaged in traditional banking by offering the basic intermediation service i.e. provision of savings facilities and credit for productive purposes and also facilitate payment services including remittances.

Intermediate Phase:

Apart from providing the traditional banking services in the initial phase, the banks additionally moved into lending for consumption purposes. The banks ventured into offering para-banking services like insurance etc. The demand for such services arose primarily on account of a transition of the economy
from an investment (production) led growth phase to a consumption led growth phase.

**Advanced Phase:**

Apart from providing the services offered in the intermediate phase, banks additionally started providing high-end savings & investment products, wealth management products, and structured products to both individuals and corporates. In other words, in this phase, the banking system additionally started supporting the speculative activities over and above for the production and consumption activities. Private banking, an advanced version of retail banking for ‘classes’, became relevant at this stage. In 1991-92, the RBI launched major banking sector reforms aiming at creating a more profitable, efficient and sound banking system. Based on the recommendations of the Narasimhan committee on financial sector reforms, these reforms sought to make the banking system more responsive to changes in market conditions. As a result, the era of deregulation of entry, branch licensing and interest rates dawned upon Indian banking industry in the form of privatisation and modernisation. Disinvestment in public sector banks and deregulation of Indian banking industry as a whole increased competition in the banking industry through increased private participation. Privatisation of Indian banking industry coupled with information technology revolution in India in general helped to modernize Indian banking with higher competitiveness. It was during this phase that the Reserve Bank of India formed several committees for monitoring customer services in banks. Also, the Central Bank assigned priority to upgradation of technology in the financial sector based on several factors that influence customer services:

- Use of technology by employees would enable them to arrive at correct and timely decisions.
Banks should offer financial products like deposits and advances but in addition to these products/services non-financial products like safe deposit vaults, e-lockers, and para-banking services.

The processes adopted to get services must be customer friendly and easy to understand and complete.

Customers demand effortless, efficient, secure, simple and dependable delivery channels for delivery of services either through personalized banking or through technology driven delivery channels.

Customer complaints should be analysed properly as it is of great help in formulating products, fine tune services and plug loopholes.

1.2.2 Efforts made by the RBI for improvement of customer services in banks

In 1975, the Government of India had appointed the Talwar Committee on customer service in banks. In 1990, the RBI appointed the Goiporia Committee on customer service in banks. In 2004, the Tarapore Committee recommendations led to formation of Board level committees for monitoring customer service in banks. In 2006, Reserve Bank of India appointed a Working Group to formulate a scheme to ensure reasonableness of bank service charges under the Chairmanship of Shri. N. Sadasivan. The recommendations of the various Committees / Working Groups reflected the need of the time in which the Committees / Working Groups were set-up.

For instance, the Goiporia Committee broadly covered the following aspects:

- Causes of the persistence of below par customer service in banks.
- Areas of deficiencies in customer service in banks.
- Measures for improvement in work culture.
- Steps for inculcation of greater customer orientation among bank employees.
- Identification of structural and operational rigidities and inadequacies which adversely affect the working of banks.
Upgradation of technology to ensure prompt and efficient customer service.

Further, efforts were made by the RBI to bring in improvement in performance and procedure. The Damodaran Committee, headed by former SEBI chief M. Damodaran, proposed a slew of consumer-friendly measures. This committee was set up by the RBI for bringing in better standards of service and more secure ways of doing business.

The important recommendations of the Damodaran Committee are:

- A guaranteed payment of up to Rs 5 lakh (raised from Rs 1 lakh) under deposit insurance to an account holder if a bank fails.
- No liability on customer for losses in ATM and online transactions.
- Instant blocking of ATM card through SMS for lost/misused cards.
- Transition to chip-based card with a photograph.
- Automatic update of senior citizen status in core banking solution branch.
- Pensioners to be allowed to submit life certificate in any bank branch.
- A common toll-free number for all banks, like 100 for police.
- A third-party Know Your Customer data bank.
- A detailed break-up of service charges for basic services.
- Small remittances at reasonable price.
- Compensation for delayed return or loss of title deeds in the custody of banks.
- Plain vanilla savings account without a minimum balance requirement
  Prepaid instruments worth up to Rs 50,000 for frequent travellers.
- A chief customer service officer for grievance redressal in every bank.

The recommendations of different committees on customer services appointed by the RBI led to delivery of hassle-free improved customer service. At the instance of the RBI, banks needed to set up internal customer grievance redressal mechanism at branch level. The Banking Ombudsman Scheme 2006 became more customer friendly as complaints on e-mail were
also accepted. In 2003, the RBI had issued the Fair Practices Code for lenders, which required banks and financial institutions to provide a copy of the loan agreement. Customers could also sign up for National “Do Not call registry” so that unsolicited calls from marketing agencies could be avoided. Banking Codes and Standards Board of India (BCBSI) was set up in 2006 with the aim of promoting good banking practices. BCBSI set up minimum standards, made efforts to increase transparency, achieve higher operating standards to promote cordial bank customer relationship.

1.2.3 **Efforts made by the RBI for implementation and upgradation of technology in banks**

A major breakthrough in mechanization and computerization in the banking industry was seen in September 1983 when an agreement was made between the Indian Banks’ Association and the All India Bank Employees’ Association on the installation of electric/electronic machines (other than computers), microprocessors, and mainframe computers to support specified functional areas in branches, zonal offices, and head offices.

Periodically, almost once in five years since the early 1980s, the Reserve Bank appointed committees and working groups to deliberate on and recommend the appropriate use of technology by banks as depicted in Table 1.1.

**Table 1.1: Committees/Working groups on Computerization appointed by the RBI**

<table>
<thead>
<tr>
<th>Name of the Committee with year</th>
<th>Head of the Committee</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working Group to consider feasibility of introducing MICR/OCR Technology for Cheque Processing (1982)</td>
<td>Dr. Y. B. Damle, Adviser, Management Services Department, Reserve Bank of India</td>
<td>• Introduction of item processing (sorting and listing of cheques with the help of Computers) in three phases. • In the first phase at the four metropolitan cities viz., Mumbai, New Delhi, Chennai and Calcutta, with the help of</td>
</tr>
<tr>
<td>Committee on Mechanization in the Banking Industry (1984)</td>
<td>Dr. C. Rangarajan&lt;br&gt;Deputy Governor, Reserve Bank of India</td>
<td>Banks should set up service branches at centres where they have more than 10 branches. The service branch so set up would exclusively be devoted to clearing operations of the bank at that particular centre. Banks to be in readiness for the introduction of MICR clearing at the four metropolitan cities by assessing their requirements for encoders, adopting standardized cheque forms and reorganizing work procedures where necessary, and training staff down to the branch level.</td>
</tr>
<tr>
<td>Committee on Communication Network for Banks and SWIFT implementation (1987)</td>
<td>Shri. T. N. A. Iyer, Executive Director, Reserve Bank of India</td>
<td>• Setting up of X 25 based packet switching network called ‘BANKNET’ to be jointly owned by the Reserve Bank and the public sector banks. • Inter – bank fund transfers on banks ‘own account and on</td>
</tr>
<tr>
<td>Committee on Computerisation in Banks (1988)</td>
<td>Dr. C. Rangarajan, Deputy Governor, Reserve Bank of India</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>----------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Computerisation of settlement operations in the clearing houses managed by Reserve Bank of India at Bhubaneswar, Guwahati, Jaipur, Patna and Thiruvananthapuram.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Operationalisation of MICR technology and the National Clearing of inter-city cheques at the four metropolitan cities.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Introduction of one-way collection of cheques drawn on the 4 metros received from Ahmedabad, Bangalore, Nagpur and Hyderabad.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Framing of Uniform Regulations and Rules of Clearing Houses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Branch level computerization and the establishment of connectivity between branches.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Improvements in customer service – introduction of on-line banking.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Standardisation and rigorous security features to ensure an efficient and risk free transfer of financial messages.</td>
<td>customers’ account;</td>
<td></td>
</tr>
<tr>
<td>• Inter – branch funds transfers on banks’ own account and on customers’ account;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Currency chest transactions;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Government transactions;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Improvements in payment systems by facilitating automated clearing services.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• India should join the SWIFT (Society for Worldwide Interbank Financial Telecommunication) Network for the transmission and reception of international financial messages.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Committee on Technology Issues relating to payments system, Cheque clearing and securities settlement in the Banking Industry (1994) | Shri. W. S. Saraf, Executive Director, Reserve Bank of India | • Setting up a network of Automated Teller Machines (ATMs)
• Introduction of a single ‘All bank’ credit card.

Committee on Technology Issues relating to payments system, Cheque clearing and securities settlement in the Banking Industry (1994) | Shri. W. S. Saraf, Executive Director, Reserve Bank of India | • Establishment of an Electronic Funds Transfer (EFT) system, with the BANKNET communications network as its carrier.
• Enactment of suitable legislation on the lines of the Electronic Funds Transfer Act 1978, USA and Data Protection Act 1984, UK.
• MICR clearing be introduced at all centres with more than 100 bank branches.
• Introduction of a Delivery versus Payment (DvP) system for SGL transactions, with settlement on gross basis both for securities transactions in PDO and funds transactions in current.
• Introduction of Electronic Clearing Service Credit for low value repetitive transactions such as interest, dividend, salary, pension payments and an Electronic Debit Clearing for payments to utility companies.
• Switch over to on – line inter – bank clearing on a gross basis.
• Large scale induction of computers and communication technology in service branches.
• Optimal usage of SWIFT.

Committee on Technology Issues relating to payments system, Cheque clearing and securities settlement in the Banking Industry (1994) | Smt. K. S. Shere, Principal Legal Adviser, Reserve Bank of India | EFT system could be introduced immediately by framing regulations under section 58 of the RBI Act. A
Cheques Clearing and Securities settlement in the Banking Industry (1994) | Model Customer Contract agreement to govern the Banker – customer relationship with regard to EFT should be adopted by all banks participating in the system.

Report of the Committee on Technology Upgradation in the Banking sector | Dr. A. Vasudevan | • Report of the Working Group on Technology Upgradation of Banks

• Ensure authenticity


Source: ST Surulivel (2012) [29]

It is worth mentioning here that two significant decisions of the Reserve Bank in the 1990s changed the banking scenario for ever. The first was the compulsory usage of technology in full measure by the new private sector banks as a precondition of the license and the second was the establishment of an exclusive research institute for banking technology which came to be known as Institute for Development and Research in Banking Technology.

Thus, substantial effort was made for developing a modern, efficient, integrated and secure payment and settlement system in financial sector. Modernisation of clearing and settlement through MICR (Magnetic Ink...
Character Recognition) based cheque clearing, popularization of electronic clearing services (ECS) and integration of RBI-EFT scheme with electronic funds transfer (EFT) schemes, introduction of centralised funds management system (CFMS) are significant milestones in this regard. Real Time Gross Settlement (RTGS) environments improve the effectiveness of asset - liability management. Core Banking System (CBS) and Cheque Truncation System (CTS) are two recent developments in multicity banking that replace the existing system of remittances that cost time and money both.

In the entire process of improving customer service and implementing and upgrading technology in banks, efforts of banks were adequately supplemented by the RBI. Being the regulator of the banking sector the RBI actively guided, supported and actively engaged in the review, examination and evaluation of customer service in banks. It has always stressed the need for quality and introduced a framework to ensure that banking services are available to common people in the remotest corner of the country. Taking into consideration the recommendations by various committees appointed by the RBI and guidelines of the RBI, banks started using IT to automate banking transactions and processes. Thus, the role of the RBI was that of a catalyst in improving customer services in banks. Competition impacted customer services in banks making improvement in quality of service imperative. Thus, there was need to customize products to suit customer requirements, expand range of products / services, wide use of technology to make banking more accessible to customers. This led to transformation of banks which fast changed their service delivery style to compete with private banks.

Most banks made efforts to keep up with new systems and processes to enable them to deliver improved customer services. Banks embraced technology in delivery of services to enhance speed of processing and transmission of information, enable easy marketing of products, enhance customer access, awareness and wider networking.
Increased use of technology in banks led to neat and accurate banking service to customers which is evident from the computerized passbook printing, statement of accounts, auto printing of standard letters to customers, quick access to information on personal computers provided great satisfaction to customers as they did not have to struggle to read handwritten documents by employees.

The Indian banking sector realised that to survive in a fiercely competitive environment, banks had to provide services to their customers with speed and efficiency and in a manner that will satisfy customers. To achieve improvement in customer’s services, bank’s had to redefine their role taking into account the factors for enhancing customer services and use of technology depicted in Fig. 1.1.
1.2.4 **Core Banking System (CBS)**

Technology has revolutionized the way banking is done. Core Banking System (CBS) refers to computerisation of a bank's operations in such a manner that all customer account information can be accessed through a central database. This is made possible through networking of branches and creation of central databases which are available on the data server in the data center. It is an enhancement of branch computerisation where physical entries in ledgers are replaced with electronic postings. Implementation of CBS requires re-engineering of processes. It enables banks to adapt to delivery channels speedily. A Core banking system offers benefits to customers, employees, management and shareholders.
The benefit of core banking to customers is the availability of anywhere, anytime banking, easy access to services, and access to new services such as instantaneous transfer of funds, online bill payment and online broking. Both, bankers and customers tend to gain as banks do not have separate office hours and customer hours.

To employees, CBS offers the benefits that were available in a fully automated standalone branch. It places information at the finger tips of a banker. Bankers can enable the customer to access the bank through the preferred channel. CBS allows the bank to plug in any channel be it internet banking, mobile banking, phone banking or ATM networks to the centralized banking software. This in turn, vastly increases the capacity of the bank to handle customers efficiently. It also enables the bank to separate office functions from back office ones. The back office activities can be handled through technology at a remote data centre, freeing the branch staff to spend more time on customers. Branches are relieved of annual/half yearly/quarterly closing activities. Hence, the branch staff is free from performing repetitive and time consuming tasks and gives them more time for performing sales and service functions at the branch.

To management, CBS enables capture of operational information which can be analysed electronically in a very short time. The Management thus, has access to almost real time information required for decision making. Asset Liability Management and Treasury management become easier and efficient. Inbuilt checks in the system take care of income leakages. All data being available at one site, auditors can be supplied data easily. In CBS environment new products can be rolled out speedily and regulatory issues like Anti-money laundering measures and Basel – II compliance can be addressed easily and efficiently.
The advantages that accrue to management, employees and customers ultimately translate into benefits for shareholders. CBS helps in cost cutting, improving customer service and enabling banks to face competition. These factors lead to growth of business and profits with lesser degree of risk.

Once banks have rolled out CBS, they are ready for receiving benefits of electronic delivery channel adoption. CBS enables quick implementation of delivery channels so that banks can increase their reach, have presence in remote areas, improve existing services by providing faster processing through cost effective solutions, deliver new products etc.

Costs of banking service through electronic delivery channels form a fraction of costs through conventional methods. As per the Report on Internet Banking published by the RBI in 2001 “Rough estimates assume teller cost at Re.1 per transaction, ATM transaction cost at 45 paise, phone banking at 35 paise, debit cards at 20 paise and Internet banking at 10 paise per transaction”.[30] The cost-conscious banks in the country have therefore actively considered use of electronic delivery channels for providing services. A reduction in cost of transaction should lead to improvement in profitability.

Increased IT spends by banks and adoption of technology have benefitted the customer, management, employees and shareholders. There is need to create a new customer experience whereby seamless movement of customers across channels is possible. At the same time it is highly essential that customers receive a very consistent, efficient and personalized service across multiple channels, devices, and systems. To enhance profitability of banks by cutting down operational cost, it is necessary to improve various processes, apply re-engineering techniques and deliver the best product or service to the customer at the lowest cost.
Conclusion
In Part A of this chapter, some important concepts are discussed. In Part B different phases of Indian banking, evolution of banking in India has been discussed. An attempt has been made to trace the efforts made by the RBI to improve customer services and adoption of technology in banks. Implementation of CBS paved the way for fast implementation of electronic delivery channels which led to the transformation of traditional banks into modern banks offering enhanced customer services.
References


2. Lohith et al, Banking System in India ppt http://www.slideshare.net/lohith1512/banking-system-ppt


7. Nimalathasan B. (2009), Profitability of listed pharmaceutical companies in Bangladesh : An inter and intra comparison of AMBEE & IBN SINA companies Ltd., http://www.academia.edu/2501544/Profitability_of_Listed_Pharma ceutical_Companies_in_Bangladesh_An_Inter_and_Intra_Com parison_AMBEE_and_IBN_SINA_Companies_Ltd


11 The importance of customer service at Enterprise Rent-A-Car
http://businesscasestudies.co.uk/enterprise-rent-a-car/the-importance-of-customer-service-at-enterprise-rent-a-car/what-is-customer-service.html#axzz30deM7kXU


13 http://en.wikipedia.org/wiki/Pune


15 http://mahades.maharashtra.gov.in/homePage.do?actionPage=1

16 Pune: City Development Plan (CDP), An Appraisal Report, NIPFP/March 10, 2006

17 http://en.wikipedia.org/wiki/Banking_in_India

18 http://wiki.answers.com/Q/What_is_scheduled_commercial_bank#slide=1&article=What_is_scheduled_commercial_bank

19 http://wiki.answers.com/Q/What_is_the_difference_between_scheduled_and_unscheduled_bank#slide=6&article=What_is_the_difference_between_scheduled_and_unscheduled_bank


21 http://regconf.hse.ru/uploads/17a98d7e5d4410aa4f12f621150c82a0e80d2a6ad.pdf


24 Ibid

23 “What is modern banking ?”, ibnlive 5-9-2013
http://ibnlive.in.com/build-your-money/article.php?id=35

25 Ibid

26 “Report of the Committee on customer service in India”, RBI 3-8-2011

27 http://www.gktoday.in 2009-2013

http://shodhganga.inflibnet.ac.in/bitstream/10603/5600/11/11_chapter%203.pdf

30 “Report on Internet Banking”, RBI,