

# Indian Banking - A Long Journey of Incredible Transformation from Traditional Branch Banking to Digital Banking

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**Abstract:** *Existence of a sound financial system with Banks constituting an integral part of it is a pre-requisite for any country to prosper, without India being an exception to this. As repositories of deposits and purveyors of credit, Banks play a strategic role in the sustainable socio- economic development of our country. Though , the Banks in our country have initially started their journey by choosing the path of serving the banking needs of only the affordable and affluent sections and continued such system during the Pre-Independence Period, like other sectors of our economy, even Banking Sector is also expected to be responsive to the needs of the disadvantaged sections, to enable the Union Government to accomplish the goals of the socialistic pattern of society- the path chosen by the Government after the attainment of Independence. As the Social Banking and Mass Banking have become the crying needs for the Government, to make weaker sections and vulnerable groups enjoy access to the formal Banking facilities, Governments during the Post - Independence Period were required to go for the Nationalization of Banks. As Banks were asked to focus much on massive branch expansion and priority sector lending, Banking Sector in our country has suffered a lot on account of the unremunerative lending practices followed by it. Again, to make Banking Sector more vital and vibrant and enjoy competitive advantage, Government was required to focus on reformation of the Banking Sector through a Red Carpet Welcome gave for some concrete steps like Consolidation of Banking Industry through Mergers, adoption of ICT enabling the Banks in our country enhance customer experiences through customized banking products using ICT. Thus, Indian Banking Industry has a long journey beginning its activities with Class Banking has subsequently changed its path to Mass Banking, Social Banking and now settled in e- Banking providing variety of benefits to the customers viz easy and any time accessibility to the banking services, ease of doing banking, cost effectiveness in enjoying the Banking Services.*

**Keywords:** Branch Banking, Statutory Liquidity Ratio, Cash Reserve Ratio, Information and Communication Technology, Technology-Enabled Banking Services, Electronic Transfer of Funds, Point of Sales Services

## 1. Introduction

Indian Banking industry with its long journey begun during Pre- Independence Period through "Branch Banking", with emphasis laid on security oriented lending was subsequently required to take the new role from shifting its emphasis from "Class Banking" to "Mass Banking", so as to play its defined role of enabling the Union Government to become successful in achieving the socio- economic development of the country.

Nationalization of Banks further made it possible for the Union Government to achieve the goals of socialistic pattern of society through the establishment of Bank branches in unbanked areas resulting in the avoidance of regional disparities to some extent.

Thus, Banks during "Post - Nationalization" embarking upon "Priority Sector Advances" have played a prominent role in bringing the neglected sections of the society under the umbrella of Banking Sector.

### Reform - Era in Indian Banking Industry - A Journey Towards Improved Operational Efficiency

Though Nationalization of Banks has become the curtain raiser in the history of Indian Banking industry for bringing qualitative changes in the living conditions of "Have Nots" , Banking activity undertaken with a social purpose without profit consideration has resulted in huge "Non - Performing Assets" (NPAs) due to the unremunerative lending practices

practiced by the Banks , thus impairing their financial health having a telling effect on the health of the whole economy.

Apart from unremunerative lending practices pursued by the industry, massive and indiscriminate Branch expansion attempted by the Banks coupled with huge doses of deployment of manpower imbued with urban oriented life style has further added the fuel to the existing fire, thus weakening the edifice of the whole banking industry.

In order to make the Banking industry to face global level challenges posed by the Banks from other countries and to remain resilient and responsive to the ever changing needs of the customers, and to improve the operational efficiency of the industry , Union Government was required to have a relook at the whole banking industry and for further rehauling it, Government was compelled to go for the adoption of reforming the whole industry with a basket of measures initiated for making the industry to become globally more competitive.

Going for adoption of reforms has become an utmost necessity to address various issues confronting the industry which includes regulated environment in which Banks were asked to operate, low productivity and efficiency of PSBs, continuous losses suffered by the PSBs, increasing NPAs, deteriorated portfolio management, poor customer service, obsolete technology and lastly inability of the Banks to work in a competitive, volatile and exciting environment.

In order to make Indian Banking Industry to withstand competition, Government of India headed by late Sri P. V.

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Narsimha Rao, the then Prime Minister was required to go for the constitution of a Committee under the Chairmanship of Sri Narasimhan, former Governor of R.B.I., and after an in-depth examination into the functioning of the Banking Industry, Committee came up with the following recommendations.

- 1) Reduction in Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR)
- 2) Deregulation of interest rates
- 3) Transparent guidelines for the entry and exit of Private Sector Banks
- 4) Liberalization of Branch licensing policy
- 5) Setting up of Debt Recovery Tribunals
- 6) Asset Classification and Provisioning
- 7) Income Recognition
- 8) Asset Reconstruction Fund
- 9) 40 % of the advances to be earmarked for the Priority Sector

Though the Banking Industry could register phenomenal progress in case of branch expansion and deposit mobilization, sad state of affairs prevailing in the system is that, due to lack of competitive spirit demonstrated by the industry and because of incidence of more and more NPAs and also on account of obsolescence of technology, Banking industry in our country has lagged behind many of its counterparts from other countries in improving their operational efficiency.

To come out of the precarious situation explained above, again it has become an imperative need for the Union Government to pay a serious thought on further streamlining the Banking industry to go for further reforming its functioning. Thus, going for another set of reforms in the wake of liberalization, privatization and globalization has become the call of the hour for banks, and to enable the banks to think in these lines, Government of India again had to request Sri Narasimhan to propose some policy measures required for making the Banking industry more healthier.

To make Banking Industry gradually stand on its own feet, Narasimhan Committee emphasized that, there is an immediate need for the government to reduce its stake in Banks to 33%, apart from recommending that, the Banking Industry need to be consolidated through encouraging weak Banks to get merged with strong Bank.

Among several other measures recommended by the Narasimhan Committee, bringing technological improvements in the industry has become the most notable recommendation.

As Banks being people sensitive service industry dealing with other people's money offering almost homogenous banking products and services, with almost same pricing policies followed by them, as they cannot sustain their position without being successful in Customer Service front, adoption of "Information and Communication Technology" (ICT) has become the foremost requirement for the Banks to remain in the Banking field.

Technology adoption has become an immense requirement for the "Public Sector Banks", especially in the wake of entry of more and more "New Generation Private Sector Banks" into the Banking field as well as due to the influx of more and more Foreign Banks.

New Private Sector and Foreign Banks by fine tuning their "Customer Service Strategies"(CSSs), with more thrust laid on technology have become a big challenge to the Public Sector Banks which have been following traditional methods of banking practiced through "Bank Tellers" operating through "Bank's Branch Counters"(BBCs).

As Private Sector and Foreign Banks chose "Digital Platform" as a "Road Map" to reach widely spread clientele to offer Banking Services with convenience, any time and everywhere accessibility, ease of use, cost effectiveness etc., offered to them as "Branch Banking" is considered by them to be more expensive, even the Public Sector Banks in order to enjoy long term existence are left with no other option except to follow the Private Sector and Foreign Banks, by positively thinking about the adoption of ICT, failing which they perish.

Thus Indian Banking Industry has traversed several miles to reach the present stage of consolidation and has opened its doors for ICT into its activities in not only offering the customized banking products, pricing the banking products and services, but also in marketing its diversified banking products and services.

As today's customers are more enlightened, demanding and more and more tech-savvy than their counterparts of yester years and they are constrained by the time and geographical limitations and want everything happens on finger tips and also more cost conscious, to make such customer group happy with banking services, Banks more particularly the PSBs are to attach undue importance to provide "Technology- Enabled Banking Services"(TEBSs).

Need for the adoption of ICT has become a necessity and compulsion to the Banks to survive in the long run, so as to satisfy the younger generation of customers who constitute a major share in the Bank's Customer group, as they cannot afford to stand in long queues to avail Banking services.

With the sustained and conscious efforts made by the successive Union Governments and RBI, Banking Industry in our country has become mature enough and is able to withstand its position even during the trying times of economic recession which has toppled every sector in the economies of other countries, and it could become possible due to the leadership provided by the successive Union Governments and enlightened guidance provided by the RBI.

### **Scenario of Indian Banking Industry during Post - Reform Era**

Indian Banking Industry during "Post - Reform-Era" to become operationally more efficient and to become successful in leaving a lasting satisfaction by way of providing customized services any time and everywhere to its vast network of clientele and finally to become front

runner in customer retention is left with no other alternative, except to resort to take the aid of modern technology. With the adoption of ICT, landscape of the Banking Sector like every other sector is altogether changed.

Consequent upon the entry of ICT into Indian Banking Sector, it has become inevitable for the Banking industry to go for multi-pronged strategy to finally succeed in its attempt to operationally become more efficient and for this an important step required by the banks is to concentrate their attention on expanding the "Fee - Based" and "Fund-Based Income", and thus they are supposed to reduce their reliance on earning more and more "Interest-Income".

As the introduction of reforms have raised the customer expectations and as younger generation of customers have become the major share in different customer groups, Banks in their war to retain this group of customers and to succeed in their journey to attract new customers through this younger generation of customers, are to pay focused attention on the introduction of new products and services to satisfy the diversified needs of these customers.

Banking Sector Reforms further made it mandatory for the Banks to lay emphasis on market segmentation, product positioning, innovative delivery channels, cross-selling etc., failing which they will become unable to remain in the Banking field characterized by hypersensitive environment.

Apart from the above pro-active measures, Banks to gain competitive advantage through implementation of ICT are further required to understand the utmost importance attached to other measures which include reorganizing the Branch networks, reducing the dependence on manpower through its replacement by ICT, bringing dramatic reductions in establishment expenditure, etc.

By reducing the manpower, Banks should try to reduce strain on their scarcely available financial resources and the expenditure thus saved should enable them to provide the banking services to the customers in a cost-effective manner. This would help the Banks, not only to become successful in achieving customer satisfaction, but also in retaining these satisfied customers, who support the Bank in turn by way of repeated purchases of the banking products and services made by them.

A situation has come to the Banks to accept the fact that the financial resources deployed for ICT is not an expenditure, but an investment made by them to bring qualitative changes in their overall functioning, aimed at enabling them effectively compete with their competitors both at the domestic front and also at global level. They are further required to understand that, without going for deployment of ICT, their efforts to continue in the market will be of no avail and simply must disappear from the banking field.

Thus, ICT in the Post - Reform era has become an unavoidable requirement to be fulfilled by the Banks to stay competitive and remain in the Banking field.

### **Alternative Channels of Banking -- A Gateway for Better Customer Service**

With the way paved by the Banks for ICT in the Post - Reform era, it has become unavoidable for the Banks to go for "Alternative Channels of Banking", as the "Branch Banking" has almost become redundant in better serving the diversified Banking needs of the Customers spread over different geographical locations.

As today's customers are more tech-savvy and are constrained by time limitation and are interested to avail banking services from anywhere and beyond banking hours, and these customers constitute a major share in the total customer base, for retaining these Customer groups and to succeed in their endeavor to reach new customers through these existing customers, there is no other go for banks, except to think of keeping "Alternative Channels of Banking" at the disposal of these customers, as they want the customer services provided to them "Anywhere and Any Time".

As the traditional way of banking practiced by the Banks all these days through "Branch Banking" is proved to be ineffective from the point of view of its outreach, and other factors like convenience in Banking, ease of doing Banking and cost effectiveness etc., and these factors have altogether changed the customer behavior, for Banks in our country to succeed in these days of intense competition, it has become imperative for them to provide banking services via "Alternative Channels of Banking", failing which they are likely to taste the consequence of losing the business from these customers, who don't hesitate even to switch over to the Foreign Banks, even without caring their long-term and enduring relationship maintained by them all these days, as "Foreign Banks" and "New Generation Private Sector Banks" are well known for enjoying the status of pioneers in the field of ICT, by being the first adopters of ICT. Thus, ICT has become a choice, not the option for the Banks in our country.

Banks in our country to stand in competition are to follow the guidelines issued by the RBI from time to time regarding "Alternative Channels of Banking" and must fine tune their e-Banking Services suiting the ever-changing needs of the customers.

By going for the adoption of "Alternative Channels of Banking", Banks in our country have been ensuring the facility of "Anywhere and Any Time Banking" through different digital platforms provided to the customers and they include ATMs, Internet Banking, Mobile Banking, Telebanking, e-Payments through ECS (Debit and Credit), Electronic Transfer of Funds (ETF), NEFT, RTGS, Debit and Credit Cards, Point of Sales Services (POSs) etc.

With the advent of ICT, banking has become more customer friendly, as they are enabled to avail Banking Services from any Branch, irrespective of the fact that, they maintain their accounts with any other Branch known as "Home Branch", as this innovative way of Banking could become possible for customers, because of the reason that, Banks have gone for "Core Banking Solutions"(CBSs) ensuring again the benefit

of ease of doing banking apart from avoiding the necessity of paying visits by the customers to the Home Branch, where as a matter of fact the account is being maintained. Banks could think of revolutionizing the functioning of the banking system through "CBSs", because the reforms implementation by the Banks in their true letter and spirit made it possible for them to go for setting up the "Central Data Repository". This has not only brought cost advantages to the customers in enjoying banking services, but also facilitated them go for improvising the "Management Information System"(MIS) besides mitigating the problem of frauds, which have bothered the customers for quite a long time, when they relied upon "Branch Banking".

By making available the above mentioned "Alternative Channels of Banking", customers are enabled to enjoy several banking services like cash deposits and withdrawals, obtaining bank statements and Demand Drafts, sending requisition for Cheque Books, knowing bank balances, instantaneous payments and obtaining acknowledgements for these payments etc.

Apart from the Banking Services, the customers are further enabled by the Banks to enjoy several value added services like payment of utilities, payment of Insurance Premia and Income Tax, recharging of mobile phones, buying bus, train and flight tickets etc. , with much ease and convenience and thus the customers availing banking services via Alternative Channels of Banking are facilitated to lead a quality life more than those availing these services via Branch Banking.

Though the e- Banking Services provided by the Banks via "Digital Platform" or "Alternative Channels of Banking" are fetching the customers in different ways as mentioned below, as our country lives mostly in villages with many illiterates having no operating knowledge towards e-Banking Services and necessary IT Infrastructure is yet to be developed in most of the Banks, and still "Branch Banking" is very much favored by majority of the customers owing to its inherent advantages like personal interactions through human interface and consultative and advisory services, we need to wait for some more time to see the penetration of e-Banking through Alternative Channels of Banking into many parts of "Rural India". Banks can cope up with this situation through more and more "Customer Awareness Programmes" launched by them, to make customers aware of the e- Banking Services.

As the e- Banking is increasing its reach among customers of different customer segments through the "Customer Awareness Programmes", till e- Banking go to the doorsteps of every Customer including those from rural areas, Banks are to step up their efforts to make "Branch Banking " more responsive to the diversified banking needs of the customers through personalized services provided to them, besides providing them the advisory and consultative services, ultimately enhancing their banking experiences.

## **2. Inclusive growth through Commercial Banks**

Though Commercial Banks are expected to act as the vehicles to usher the economic progress by striving hard to bring all sections of the society including both the affluent and vulnerable sections into the banking stream, even after a long journey carried by the Indian Banking Industry, fate line of the disadvantaged sections remains unaltered.

In spite of so much importance attached to the Banking industry through Nationalization and liberalization policies pursued by the successive Union Governments and the RBI, the Apex Bank of the entire Indian Banking Industry expecting the Banking Sector to strive hard to change the living conditions of those living "Below Poverty Line" through "Inclusive Banking Policies" implemented by them in a strict sense, still unsatisfactory situation prevailing in the country is that , Banks are yet to reach many unreached sections.

Through Nationalization of Private Sector Banks and implementation of Banking Sector Reforms, though Commercial Banks in our country were under a statutory obligation to reach the Unbanked areas and customers through opening of Bank Branches in Rural and Semi-Urban areas as well as through injecting huge doses of credit to the Priority Sectors, Banking Industry in our country could not meet the expectations of both Government of India and RBI, the regulatory body overseeing the entire banking activity in our country in respect of supporting the underserved sections of the society.

As many people belonging to weaker sections and vulnerable groups were still kept at distance without ensuring them access to the formal financial system and were subjected to social exclusion, it has become an utmost necessity for both the Union Government and RBI to envisage a concrete strategy to bring these socially excluded sections into the fold of formal banking system.

As the socio- economic development of the country is linked with enabling everyone including those socially excluded sections enjoy access to the financial services made available through a formal financial system, need for "Inclusive Growth Strategies" has been seriously felt by the Union Government and RBI - the Apex Body of the Banking Sector of our country.

As Banks constituting an integral part of our country's financial system has a pivotal role to play in taking the fruits of "Inclusive Growth Strategies" to the disadvantaged groups, both the Union Government and RBI started advocating the Banks to take an active part in the execution of the "Inclusive Growth Policies", by making available their variety of innovative banking services through leveraging on the technology for enabling these neglected sections too enjoy the customized banking services.

Banks participation in the execution of Inclusive Growth Strategies has begun in our country after the acceptance of the recommendations of the Khan Commission and Rangarajan Commission by the RBI constituted by it in the years 2004 and 2008 respectively.

To achieve the goals of Inclusive Growth and in an attempt to reduce the gap between "Haves" and "Have Nots" in the society and finally to avoid regional imbalances, Commercial Banks in our country are asked to initiate various steps viz ensuring Bank account to each house hold, availability of "No- Frill Account" facility which is subsequently renamed as "Basic Saving Bank Account" (BSBA) also known as "Zero-Balance Account", providing the services of Bank Correspondents (BCs) and Bank Facilitators (BFs) for providing counselling services to the customers in availing Banking Services etc., mainly aimed at bringing more and more unbanked customers under the umbrella of formal Banking System.

Apart from these steps, Commercial Banks are further required to inject enthusiasm in the minds of unbanked customers to get inclined towards formal financial system through "Financial Literacy Programmes" launched by them.

For bringing the vast network of unbanked customers into the fold of formal banking, Union Government and RBI thought that it would be wise if more and more ATMs are opened in Rural and Semi- Urban areas enabling the customers of these areas inculcate the habit of e- Banking.

Launch of "Pradhan Mantri Jan Dhan Yojana"(PMJDY) , "Atal Bima Yojana"(ABY) "Sarv ShikshaAbhiyan" (SSA) etc., are a few important Schemes launched by the Government of India in the recent past, mainly with a view to encourage the neglected sections of the society to reap the benefits of these schemes eyed at their inclusive growth.

Further, other steps like "Direct Benefit Transfer" (DBT), "Micro Insurance" (MI), "Micro Credit"(MC), etc. Initiated collectively by the Government of India and RBI have gone a long way in the direction of "Inclusive Growth" of those "Socially Excluded Sections", to whom enjoying access to the formal banking system was an unfulfilled dream for a long time.

### 3. Conclusion

Indian Banking Industry through its long journey of adapting itself to the dynamic environment has learnt many lessons not only from its own experiences, but also from the experiences of the global players and gone for bringing time-to- time changes in its business and marketing strategies , with a major thrust laid on meeting the banking needs of the "New Generation Of Customers" through "Digital Platform" with the needs of both aged and vulnerable sections met through "Branch Banking " and "Inclusive Growth Strategies" and has become an important and strategic industry identified with every facet of economic activity of our country.

Banking Industry being a people sensitive service industry , to live up to the expectations of its stakeholders, had to think of bringing changes in its "Customer Service Strategies" (CSSs), so as to enjoy the advantage of cutting edge over its counterparts from the international economy in terms of both Customer Loyalty and Customer Retention.

As recruitment of new Customers is proved to be more expensive from the experience of the Banks than the retention of the existing customers, Banks have to be ready to further customize their products and services with an eye kept on satisfying the felt needs of the end users of these banking products and services.

As today's Customers are more inclined towards quality and cost dimensions apart from expecting convenience and easy and any time accessibility to the Banking Services, Banking Industry has to carry forward its future journey with a due emphasis laid on improving the service quality of their banking services. Otherwise, it becomes a herculean task for the Banks to mitigate the problem of customer attrition, which has an adverse effect on its long - term existence.

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