

Has Technology Reached its Saturation Point in Banking Industry?

Overview

Technology is touching the lives of everyone everywhere. It has invaded the operations of today's business world in a big way; the banking sector too is no exception to this rule. Banking system has evolved rapidly over the years and today banking sector is in the midst of the IT revolution. The rapid development of technology often gives rise to the question for if technology is reaching a saturation point in its life cycle.

In the five decades since independence, banking in India has evolved through four distinct phases. Recommendations of the Narasimham Committee (1991) paved the way for the reform phase in the banking. Important initiatives with regard to the reform of the banking system were taken in this phase. This phase can also be termed as Golden Phase of the technology implementation in the Banking Industry.

The Growth in Spending

In order to survive in this phase of competition and gain competitive advantage it has become a necessity for the banks to take help of technology. Banks are spending heavily these days on automating their internal processes. As per the recent RBI report, the public sector banks incurred an expenditure of Rs. 22,052 crore on computerization and development of communication networks between September 1999 and March 2010. It also mentions that in 2009-10 more than 95% branches of public sector banks were fully or partially computerized, 22 out of the 27 PSU banks have completed their core banking implementation.

Technology has impacted the banking system drastically, be it the funds transfer, or deposit of money or withdrawal, the technology has changed the course of banks and has made things easier and quicker. The operations which used to take days to get cleared now just can be done in few minutes. It has certainly made the life of the bankers easier and most of all it has benefited the banks as it has increased the overall profitability of the banks.

Technology Benefits

Technology has opened up new markets, new products, new services and efficient delivery channels for the banking industry. Banking is evolving into a highly competitive and technologically innovative industry. The progress of technology in banking has given rise to the concept of 'anytime anywhere' banking. The development of ATMs, internet banking, mobile banking, wire transfers etc has greatly emerged as the biggest milestones in history of banking. The bankers can do online transactions easily at the comfort of their houses.

Some of the advantages of the use of technology in banking are as follows:

- Gaining competitive advantage
- Maintain customer relationships
- Helps in acquiring new customers
- Increasing their customer base
- Decreased operational cost
- Improved efficiency
- Reduced time in processing the transactions
- Reduction in Manual Errors
- Faster customer services 24/7
- Easier introduction of new products

There cannot be a case which presents the advantages only without giving rise to a few problems in the system. The implementation of any system has its own challenges. Though they might be less in numbers or minute in details but mentioning them becomes necessary for better understanding. A few disadvantages that we can understand are:

- Excessive dependence on technology
- Any failures in the server can cause entire network to go down
- The increase in transactions through technology has given rise to the number of thefts
- The systems must be upgraded every time
- If some errors occur in some part, whole system may be disrupted

- The increase in online transactions has given rise to lot of cybercrimes.
- Doing transactions through internet may not be the safest or the securest way

Even though there are shortcomings and may not be called as the safest way possible but the advantages of technology in banking clearly outweighs the disadvantages and its increasing expansion may never be hindered significantly.

Evolution of Technology in Banking

The software packages for banking Applications in India had their beginnings in the middle of 80s. The early 90s saw banks going for the total branch automation scenario which has automated most of the banking processes and hence reduced computation time. The late 90s and early 2000s witnessed the tornado of financial reforms, deregulation, and globalisation coupled with rapid revolution in communication technologies; and evolution of novel concept of 'convergence' of computer and communication technologies, like Internet, mobile / cell phones etc.

In India, banks as well as other financial entities entered the world of information technology and with Indian Financial Net (INFINET). INFINET, a wide area satellite based network (WAN) using VSAT (Very Small Aperture Terminals) technology, was jointly set up by the Reserve Bank and Institute for Development and Research in Banking Technology (IDRBT) in June 1999.

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Reforms in payment and settlement systems have gained momentum with the projects such as NDS, CFMS and SFMS. This would result in funds transfers to be routed electronically across banks using the medium of INFINET. NDS & RTGS which has become operational since middle part of 2000s are major developments in the area.

The statistics mentioned in various world-wide journals state that there has only been growth in this sector. The evolution dates above shows that banks and the companies are always finding out novel ways to implement technology in the banking industry making them the world's biggest spending industry on technology. With the end of last decade, new and innovative ways are constantly evolving which means a saturation point of technology in banking cannot be seen now or anywhere in the near future. These days more and more banks are coming forward and investing in technology to facilitate automation of the process and data processing & provides more value addition to the entire banking business. Technology in banking has a lot of potential. Lastly with improvements and up gradation every now and then these disadvantages can be minimized to a greater extent and therefore should not be a barrier in the coming future.

About the Author

Kritika Shukla is associated with Zven as Business Analyst and provides her inputs on the development and implementation of the system at various stages. Kritika is an MBA in finance and takes keen interest in the happenings of the current banking world. The views in the article represented are a mixture of the researched activities and own thoughts that are derived out of the studies.

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