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IMPACT ON INDIAN BANKING SYSTEM – WITH SPECIAL REFERENCE TO PUBLIC SECTOR BANKS

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ABSTRACT

India quickly adopted and leveraged developments in information and communications technology, in some cases leapfrogging intermediate stages of development. This enabled the quick scale up of new paradigms of distribution and service delivery in a range of areas. Domestic consumption has been driven by the growth of the services sector, which in a way provides the economy a strong cushion against any global slowdown. The central objective of the study is to empirically investigate a role of Indian banks in capital formation and economic growth. Research is based upon the secondary data which provide the findings on Indian banking system and how it is helpful in economic development. It is therefore recommended that efforts should be made by the monetary authorities to effectively manage the banks maximum lending of banks. This policy thrust will most likely result into increased investment activities which will enhance the capital formation in India.

Keywords: Creating a symphonic enterprise of Economic Development, New client engagement models and ecosystem orchestration, Importance of banking system in economy, Role of Banking System in the Economic Growth and Development, etc.,

1. INTRODUCTION

Indian Banking Industries played vital role in the economic development of India. Banking is an integral part of the modern economy. But the nature and functions of modern banks have evolved over a long period of time. The idea of banking evolved with the idea of money. Banking business is mainly linked to lending. Money lender is to be found in every society-ancient or modern; advanced or backward.

The banking system of a country occupies a pivotal role in functioning and development of a country's economy. In fact, it lies at the core of the money market and also plays a complementary role in supporting the capital market. We must therefore, take a comprehensive view of the structure of the banking system in India.

The nationalisation of banks brought about a sea-change in the policies, attitudes, procedures, functions and coverage of banks. Indian banks are now being prepared to become international players. These are the stages through which Indian banking developed.

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2. OBJECTIVES OF THE STUDY

- To study the crucial changes of Indian Banking System in the Economic Growth and Development.
- To study the Importance of Banking System in an Economy.

3. REVIEW OF LITERATURE

Thillairajah (2010) and Padmanabhan (2017) were sharing the same opinions explain the high marginal propensity to save by the unstable economic conditions that generally prevails in these areas (unstable incomes, fluctuations in harvest etc).

Birla Institute of Scientific Research (2018) attempted to make a comparative performance analysis of the public banks and the major private banks concerning the period elapsed after nationalization. Comparisons was made using financial ratios and growth rates. The study brings out that the profitability ratios have been higher for selected group of the private sector banks than for the nationalised banks. Though public sector banks have vast network of branches and wide coverage, yet the credit of taking banking services to large mass of population goes to private sector banks.

4. RESEARCH METHODOLOGY

The present study has primary and secondary data. The primary data collected from 50 respondents. The secondary data mainly used are published in annual reports of various banks and survey reports of leading business magazines. The secondary data was also used from various reference books related to Banking System, Banking Sector, Economic Growth & Development, Banking Technology, New Age Banking Technology, Information Technology, Marketing, Banking, and over the past decade, there has been a considerable growth in studies addressing the profile of the banks. Various studies conducted and numerous suggestions were sought to bring effectiveness in the working and operations of banks.

CREATING A SYMPHONIC ENTERPRISE OF ECONOMIC DEVELOPMENT

In our 2018 outlook, we highlighted the hodgepodge of systems, platforms, software, and tools—much of it legacy infrastructure—as a key challenge for bank CIOs. This remains relevant for 2019 as well. Banks' success in digital transformation will ultimately depend on how strategy, technology, and operations work together across domains. We refer to this as a "symphonic enterprise,"25 where different technologies and solutions are seamlessly meshed to create maximum value.

The data challenge becomes more daunting as data integrity increases in importance. Regulatory expectations will further elevate the role of effective data management. PSD2 mandates that banks make customer data more accessible to third parties, while GDPR forces banks to ensure the privacy of their customer data. Not managing the conflicting priorities could raise operational risk for banks.

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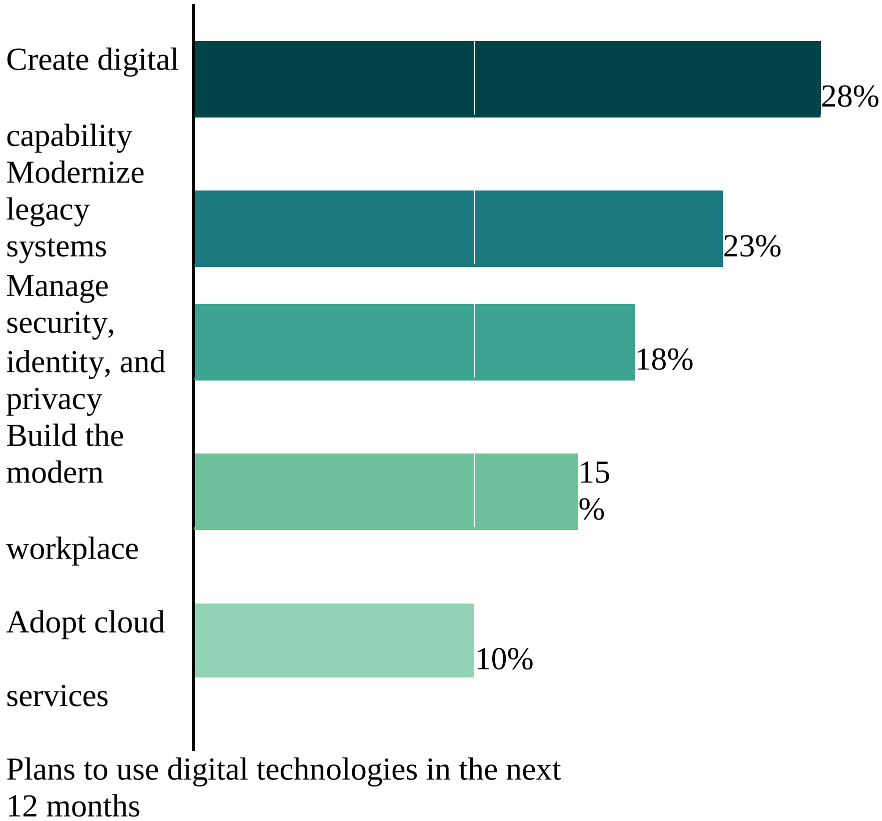

FIG NO 1

INVESTMENT BANKING

New client engagement models and ecosystem orchestration

How is investment banking changing?

The global investment banking industry has yet to find its footing after the financial crisis. However, the industry seems to be inching back to normalcy, in terms of capital adequacy and profitability. For the first time since 2012, revenues in both trading and advisory businesses will have increased in 2018.

- Business is good on several fronts: Global M&A activity reached $2.1 trillion in the first half of 2018, a 36 percent year-over-year increase. Cross-border M&A deals also set a record.77
- The recovery in fortunes, however, has not been uniform— the global dominance of US banks continues. For instance, the top spots for M&A and equity and fixed-income underwriting were held by US banks. In fact, among the top global investment banks, US banks' market share has increased from 49 percent in 2010 to 58 percent in 2017.78

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- But geopolitical uncertainty from trade wars, the US midterm elections, and Brexit could weigh on the investment banking industry, even as the regulatory climate seems less ominous. In Europe, MiFID II's impact appears to be marginal.79, 80 And, globally, investment banks are preparing for LIBOR's replacement in 2021.
- Meanwhile, most investment banks are going full throttle on a variety of digital transformation efforts to contain costs and improve customer experience. However, many operational inefficiencies still remain, and the business models at most banks generally remain the same.
- Overall, a subtle yet fundamental change appears under way in investment banking. The balance of power seems to be shifting to the buy side, especially to the large institutions.82 Commoditization, price competition, and growth in market clout have bolstered clients' negotiating power. Until recently, investment banks could count on their balance sheets, product breadth, global scale, market-making prowess, and reputation to attract clients and command price premiums.
- The economic realities across the trading life cycle continue to put pressure on many institutions. While much has been done already in rationalizing business models and ramping up efficiencies, the vestiges of old operating models are still visible, even at the most mature institutions. Unfortunately, the journey is not complete. There is still room to simplify the core.

What can we expect in 2019?

- 2019 could turn out be a pivotal year in investment banks' transition to become simpler and leaner, yet stronger, franchises. Meaningful changes are expected on many fronts.
- First, trading arms should get their FICC cost base under control (figure 7); although some progress has been made in rationalizing expenses, the job is not complete. For instance, in 2017, staff costs dropped sharply, partly as a result of continued cost-reduction efforts, but these savings have been offset by new technology investments. This trend is expected to continue for some time.
- But more strategically, a fundamental rethinking of the client engagement model should be considered: a pivot from product orientation to a client-centric, bespoke delivery of services, and orchestrating solutions from others in the ecosystem. This new engagement model would empower clients through seamless connectivity, self-discovery, and "intelligent" delivery of insights.
- The simplification path will entail a sharper focus on who to serve, what to offer, and how—essentially the clients-products-solutions matrix. To execute on this new vision, investment banks should think more broadly about using third parties and utilities for noncore activities. This would require greater agility.

IMPORTANCE OF BANKING SYSTEM IN ECONOMY

In performing the various functions, commercial banks render a variety of services to the economy in general and to the business community in particular. These services are as under:

- Functioning as an Intermediary: Banks act as intermediaries between the savers and investors. We have already seen that banks prompt the people to save money by offering them a guaranteed return in the form of interest. Thus, they bring the savings of people together and they also make loans available to those who are in need of credit. Thus, banks

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act as agents to bring the saving public and the investing public together, and thus act as intermediaries.

- This is a very important function and can be performed by banks because on the one hand, they stand guarantee to the depositors about the return of their savings end similarly, undertake the responsibility of recovering the loaned amount; and on the other hand,· make the money available to the borrowers.
- Helping Economic Development: Banks help the economic development of a country. These banks can very well see the profitability or otherwise, of any investment in development projects. Depending on the changes of the profitability of the project, banks provide or deny credit to them. Thus, indirectly, they help the economic development of a country.
- Mobilization of Capital: The commercial banks are in a position to transfer capital from one part of the country to another part of the country or to other countries. Thus, they impart mobility to capital. When capital is transferred from one part of the country to another, geographical mobility is provided. But sometimes, banks also help to provide occupational mobility. If anyone wants to withdraw capital from one business and wants to transfer it to another business, banks can help him to do it because they also deal in shares.
- Encouragement to Trade and Industry: By providing loans to traders and Industrialists, commercial banks encourage their activities. Industrialists need working capital. Traders need short-term accommodation for purchase of stocks. All such needs are met by bank credit.

ROLE OF BANKING SYSTEM IN THE ECONOMIC GROWTH AND DEVELOPMENT

The role of banking system in the economic growth & development can be explained as follows:

- Capital Formation: Economic development requires an increase in the rate of capital formation. For this purpose, it is necessary that the rate of savings increases. Commercial banks can and do serve a very useful purpose in raising the level of aggregate savings. In the first place, commercial banks can provide objective conditions in which people feel that their savings will be secure in the hands of the banks. This sense of security induces people to save and thus, total savings increase. Secondly, for want of proper opportunities, people in low income groups are not able to save. But by operating savings accounts, commercial banks provide an opportunity to small savers to save and invest in productive fields.
- Monetization of Debts: Commercial banks serve to increase investable funds by offering to monetize debts if and when required by creditors. Thus, people who have savings may hold back a part of them as a precaution against unforeseen circumstances. But banks offer their services whereby people can hand over their bonds, securities, shares, etc., to the banks against which they (the people) can borrow and meet their needs of cash.
- Regional Balance: If the banking system in a developing economy has a network of branches. It can help economic development in another way. The banks can transfer surplus funds from regions where they are abundant to those regions which are starved of capital.
- Consultancy Services: Besides, commercial banks may also provide financial guidance to entrepreneurs, advise them on the feasibility of their projects and furnish necessary information regarding various sources of finance, technical help, marketing services, etc. These services which are incidental to the usual banking function, go a long way in encouraging the development of agriculture, small-scale industries and other types of minor business.

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- Modernization of Business: Commercial banks represent the modern organised sector and they are themselves following modern methods of management, accounting, and project-evaluation and so on. When business units from the unorganized sector approach commercial banks for accommodation, they are exposed to these modern business practices. Thus, for example an agriculturist, a minor industrialist or any other small businessman has to submit his project to the bank to forecast the demand for his product and has to prepare his budget. By doing all these things he gets an intimation to the modern business practices which he may adopt in the management of his business. This, obviously, has a salutary effect in a developing economy.

DATA ANALYSIS AND INTERPRETATION

TABLE NO 1
FACTOR THAT MOTIVATED TO USE E-PAYMENT SERVICES-FACTOR ANALYSIS ROTATED COMPONENT MATRIX

S. NO	VARIABLE	COMPONENT						COMMUNALITY (H^2)
		F1	F2	F3	F4	F5	F6	
1.	Life style(V15)	.839	.069	.111	-.046	.070	-.146	.750
2.	Cost advantage(V12)	.777	.227	.000	-.211	-.094	.031	.709
3.	Pride & image(V4)	.516	.302	.438	.025	-.017	.083	.557
4.	Less stress(V10)	.130	.868	.162	-.046	.011	-.065	.804
5.	Availability of internet connection(V8)	.224	.756	-.155	-.103	-.116	.233	.725
6.	Easy to access(V1)	.148	-.086	.774	-.017	-.062	-.091	.641
7.	Immediate confirmation(V3)	-.314	.285	.723	-.029	.124	-.095	.729
8.	Time saving(V2)	.339	-.106	.702	.000	.185	.066	.658
9.	Speed in the transaction(V7)	-.064	.037	-.153	.862	.003	-.061	.775
10.	Convenience in the transaction(V9)	-.142	-.157	.148	.836	-.013	.164	.794
11.	Economic situations(V16)	.114	.247	.021	.066	.795	-.003	.711
12.	Long distance of the payee(V14)	-.020	-.218	.027	-.131	.741	.120	.629
c13.	Compulsions by the payee(V11)	-.225	-.313	.285	.248	.594	.146	.557
14.	Availability (24*7)(V5)	-.077	.083	-.146	.252	.136	.760	.694
15.	Motivation by others(V13)	.373	.489	-.005	.311	.142	.602	.858
16.	Accepting the small payment(V6)	.463	.255	.143	-.148	.269	.579	.730
Eigen value		3.423	2.252	1.709	1.656	1.163	1.115	

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Variance	21.397	14.078	10.681	10.350	7.268	6.968	
Cumulative variance	21.397	35.475	46.156	56.506	63.774	70.742	

The suitability of the data for factor analysis was analysed through Kaiser-Mayer-Olkin measure of adequacy and Bartlett's of Sphericity testes. The findings of the test are;

KMO AND BARTLETT'S TEST		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.533
Bartlett's Test of Sphericity	Approx. Chi-Square	527.894
	Df	120

- KMO test is a statistic which indicates the proportion of variance in the variable which might be caused by the underlying factors. The result of the test is a higher value (.533) This indicates that the factor analysis is useful for the data used in the study.
- Bartlett's test of Spehercity indicates whether the correlation matrix is an identity matrix. If it is so, an identity matrix and the variable identified are unrelated. The significance level gives the result of the test. Since the result is less than 0.05 it can be concluded that there is a significance relationship among the variables identified. Hence, it all shows that factor analysis can suitably employed in the study.
- Table shows the factor loading of the 16 variables influencing to usage behaviour and problems of customers in e-payment service in Palayamkottai Municipality area. The factor analysis reduced the 16 variables into 6 factors namely F1, F2, F3, F4, F5 and F6. These factors so categorised comprise of closely related variables. The different factors so categorised are Social Status factor, Advantage factor, Convenience factor, Speed factor, Compulsion factor and Motivation factor.
- The social status factor includes the variables namely opportunity for application of life style, cost advantage and pride & image, previous experiencing pride and image. These variables have a higher factor loading in the rotated component matrix and the social status factor explains a higher variation of 21.397 percent in the total variable set. The second factor 'Relief factor' represents reduced less stress, availability of internet connection. It also has a higher factor loading in the rotated component matrix and it explains a higher variation of 14.078 percent in the total variable set. The third factor is the convenience factor which includes the variables namely ease to access and immediate confirmation and time saving. This factor also has a higher factor loading in the rotated component matrix. This explains a higher variation of 10.681 percent in the total variable set.
- The speed factor is the fourth factor which includes the variable such as speed in the transaction and convenience in the transactions.it has the next higher factor loading in rotated component matrix and it explains a variation of 10.350 percent in the variable set.
- The Compulsion factor is the fifth factor having a higher factor loading which explains the variation of 1.115 percent in the variable set. It includes the variable such as economic situation, long distance of the payee, compulsion of the payee.
- Finally, the motivation factor which comprise of the variables such as availability, motivation by others, accepting the small payment for a variation of 6.968 percent in the total variable set.
- The Eigen value of the factors indicates the degree of variability of the factor in total set. The higher Eigen value shows the higher intensity of the variable explained in the factor. Analysis of the Eigen values of the above factors reveals the intensity of each factor

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comprising of 16 variables and their influence on usage behaviour and problems of customer in e-payment services in palayamkottai municipality area. The Eigen value of the factors such as Social status factor, Relief factor, Convenience factor, Speed factor, Economic factor and Availability factor were 3.423, 2.252, 1.709, 1.656, 1.163 and 1.115 respectively. Thus the intensity is higher in respect of Social status (3.423) and Relief factor (2.252).

- The communality (h^2) represents the role of each variable on life style, cost advantage and pride &image in palayamkottai municipality area. The communality has been high in respect of V13 that is reduced motivation by others with the communality value of 0.858, followed by V10 less stress with the communality of 0.804. It is followed by V9 convenience in the transaction with the communality of 0.794, V7 speed in the transaction with a communality value of 0.775, V15 Life style with a communality value of 0.750, V6 accepting the small payment with a communality value of 0.730,V3 immediate confirmation with a communality value of of 0.729, V8 availability of internet connection with a communality value of 0.725, V16 economic situation with a communality value of 0.711, V12 cost advantage with a communality value of 0.709, V5 availability(24*7) with a communality value of 0.694, V2 time saving with a communality value of 0.658, V1 easy to access with a communality value of 0.641, V14 long distance of the payee with a communality value of 0.629.V4 pride & image with a communality value of 0.557 and so on.

5. CONCLUSION

As technology transforms the nature of work, incumbents should not lose sight of upskilling their talent. Training employees to work with and, more importantly, supervise advanced technology platforms could become critical in a world marked by an accelerated speed of computing, trades electrification, and growing sophistication of cyber-attacks. Just as capital is one important factor that must grow if the economy is to develop, enterprise is another important factor that must grow and help the economy to develop. This requires the expansion of the entrepreneurial class which is willing to accept risks and challenges. Many times, it so happens that there is people who have the qualities of a promising entrepreneur, but they do not have the money or capital to. Put their plans into practice. Hence, banks have an important function to perform. They can scrutinize and select the plans of enthusiastic entrepreneurs and make finance available to them. Thus, by promoting enterprise, banks can help rapid economic development.

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