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Research Article

A STUDY ON IMPLEMENTATION OF INNOVATIVE PRACTICES IN PUBLIC SECTOR BANKS IN TIRUCHIRAPALLI, TAMILNADU

R.BHUVANESWARI
Assistant professor, Department of commerce,
Srimad Andavan Arts & Science College (Autonomous), Trichy -5

ABSTRACT

Innovation is identified as the main driver for companies to prosper, grow and sustain a high profitability. Indian banking industry today is in the midst of a revolution on innovation. Due to this revolution, banks have moved from disbursed to a centralized environment. Revolution started with the implementation of computerization at the branch level. This change in the banking industry was driven by the twin forces of deregulation and technological changes. As the economy moves from lower to higher stages of development, there occurs a shift from simpler to more modern and complicated techniques of production. In a tertiary sector led economy, sustained innovation and adoption of new technology is a must to improve performance and competence. This is a high time to analyze the effect of the innovation input on the performance of banking system. Owing to the above merits and demerits, awareness about the key innovative trends transforming the banking sector is necessary. Hence, the study is titled as "**A STUDY ON IMPLEMENTATION OF INNOVATIVE PRACTICES IN PUBLIC SECTOR BANKS IN TIRUCHIRAPALLI, TAMILNADU.**"

KEYWORDS: Indian Banking System, Innovative Practices, Public Sector Banks.

INTRODUCTION

Indian Banking Sector has witnessed a number of changes. Most of the banks in India have begun to take an innovative idea towards banking with the objective of creating more value for customers and to attract more and more customers in the banking network. If we see the history of Indian Banking, it is found that Indian banking has already undergone a huge transformation in the years since Independence.

Earlier the banks worked only for urban side of the country, but now they are focusing on the rural side, they are providing much facility for upliftment of their life style and their economic conditions. We cannot ignore the technological challenges for every sector, and banking sector is also facing the great challenge, that is why they are more serious about the innovation policy and strategy.

Economic growth will translate to sustainable development only when it is inclusive, creating capacity for better lifestyle among those living at the bottom of the pyramid. Banks has taken various innovative initiatives to promote inclusive growth and to achieve sustainable development as our contribution towards nation building.

Service quality and marketing approach of banks are getting reinvented with side to the maintenance of competitive position. Innovative practices implemented by a bank help the bank to win its customers and to gain new customers. Introduction of reforms like deregulation and liberalization encouraged banks to go in for innovative measures, develop business and earn profits. This study deals with the innovative strategies and policies.

CONCEPTS

There is a fairly well developed banking system with different classes of banks – public sector banks, foreign banks, private sector banks, regional rural banks and co-operative banks. The Reserve Bank of India (RBI) is at the paramount of all the banks. The RBI's most important goal is to maintain monetary stability (moderate and stable inflation) in India.

Growth and diversification in banking sector has transcended limits all over the world. In 1991, the Government opened the doors for foreign banks to start their operations in India and provide their wide range of facilities, thereby providing a strong competition to the domestic banks, and helping the customers in availing the best of the services. The Reserve Bank in its bid to move towards the best international banking practices further sharpens the prudential norms and strengthens its supervisory mechanism.

TRANSFORMATIONAL PHASES IN INDIAN BANKING SECTOR

During the five decades of attaining independence, the Indian banking system underwent four distinct phases of evolution:-

a) **The Foundation Phase**

This phase lasted till 1969, spanning through the 1950s and the 1960s. During this phase, the government focused on creating a country-wide sound system for banking. This phase saw the establishment of the necessary legislative framework for the consolidation and re-organization of the Indian banking system, thus delivering what is required for the Indian economy.

b) **Expansion Phase**

This phase began in the mid 1960s but only gained impetus in 1969, after the nationalization of 14 private banks. This phase continued till 1984. The most notable factor of this phase was the determination to make banking facilities available to the Indian masses. The branch networks were widened rapidly, which was achieved in spite of many hindrances like poor infrastructure, inaccessibility and harsh living conditions. Doing so inversely affected the banks in terms of asset quality, yielded negative profits and decreased the competitive efficiency of the system.

c) **Consolidation Phase**

The RBI undertook several policy initiatives which resulted in a slow-down of branch expansion from 1985. The banks laid more emphasis on improving the customer service, housekeeping, staff productivity, credit management and profitability of the banks.

d) **The Reform Phase**

This phase started in 1991, under the chairmanship of the Narsimham Committee which acted towards the liberalization of the banking system of India. This phase faced a major challenge in replacing the development initiatives through administrative management of planned actions with elements of market incentives. Corporate governance in banks was established (especially the PSBs), leading to changes in the regulatory environment, monetary policies and structural transformation.

TYPES OF INNOVATIVE PRACTICES

a) Debit Card

A debit card (also known as a bank card or check card) is a plastic payment card that provides the cardholder electronic access to his or her bank account(s) at a financial institution. Some cards have a stored value with which a payment is made, while most relay a message to the cardholder's bank to withdraw funds from a payer's designated bank account.

The card, where accepted, can be used instead of cash when making purchases. In some cases, the primary account numbers assigned exclusively for use on the Internet and there is no physical card. In many countries, the use of debit cards has become so widespread that their volume has overtaken or entirely replaced cheques and, in some instances, cash transactions. The development of debit cards, unlike credit cards and charge cards, has generally been country specific resulting in a number of different systems around the world, which were often incompatible.

b) Mobile Banking

Mobile banking is a system that allows customers of a financial institution to conduct a number of financial transactions through a mobile device such as a mobile phone or personal digital assistant. Mobile banking differs from mobile payments, which involve the use of a mobile device to pay for goods or services.

TYPICAL MOBILE BANKING SERVICES MAY INCLUDE:

Account information:-

1. Mini-statements and checking of account history
2. Alerts on account activity or passing of set thresholds
3. Monitoring of term deposits
4. Access to loan statements
5. Access to card statements
6. Mutual funds / Equity Statements
7. Insurance Policy Management

Investments:-

1. Portfolio Management Services
2. Real-Time Stock Quotes
3. Personalized alerts and notifications on security prices

Support:-

1. Status of requests for credit, including mortgage approval, and insurance coverage
2. Check (cheque) book and card requests
3. Exchange of data messages and email, including complaint submission and tracking

4. ATM Location

Content services:-

1. General information such as weather updates, news
2. Loyalty-related offers
3. Location-based services

c) ONLINE BANKING

Online banking (or Internet banking or E-banking) allows customers of a financial institution to conduct financial transactions on a secured website operated by the institution, which can be a retail bank, virtual bank, credit union or building society.

To access a financial institution's online banking facility, a customer having personal Internet access must register with the institution for the service, and set up some password (under various names) for customer verification. The password for online banking is normally not the same as for [telephone banking]. Financial institutions now routinely allocate customers numbers (also under various names), whether or not customers intend to access their online banking facility. Customer's numbers are normally not the same as account numbers, because number of accounts can be linked to the one customer number. The customer will link to the customer number any of those accounts which the customer controls, which may be cheque, savings, loan, credit card and other accounts. Customer numbers will also not be the same as any debit or credit card issued by the financial institution to the customer.

d) RTGS

Real time gross settlement systems (RTGS) are funds transfer systems where transfer of money or securitiestakes place from one bank to another on a "real time" and on "gross" basis. Settlement in "real time" means payment transaction is not subjected to any waiting period. The transactions are settled as soon as they are processed. "Gross settlement" means the transaction is settled on one to one basis without bunching or netting with any other transaction.

e) INFINET

The 'INFINET' - Indian Financial Network is a satellite based wide area network using VSAT (Very Small Aperture Terminal) technology set up by the RBI in June 1999. The hub and the Network Management System of the INFINET are located in the Institute for Development and Research in Banking Technology, (IDRBT) Hyderabad (an institute set up by the RBI). A Closed User Group of the member banks of the network called the "INFINET User Group" has been formed to resolve issues of common interest on a continuing basis. Among the major applications identified for porting on the INFINET in the initial phase are e-mail, Electronic Clearing Service - Credit and Debit, Electronic Funds Transfer and transmission of Inter-city Cheque Realizations advices. Later, other payment system related applications as well as Management Information System (MIS) applications are proposed to be operationalised.

F) POS

Point of sale (also called POS or checkout, during computerization later becoming electronic point of sale or EPOS) is the place where a retail transaction is completed. It is the point at which a customer makes a payment to the merchant in exchange for goods or services. At the point of sale the retailer would calculate the amount owed by the customer and provide options for the customer to make payment. The merchant will also normally issue a receipt for the transaction.

g) SMART CARD

Banks are adding chips to their current magnetic strip cards to enhance security and offer new service called smart cards. Smart cards allow thousands of times of information storable on magnetic strip cards.In addition,these cards are highly secure, more reliable and perform multi functions. They hold a larger amount of personal information from medicine and health history to personal banking.

REVIEW OF LITERATURE

Technological innovations have shown the increased productivity as stated by **Rishi and Saxena (2004).** Study identified that technological innovations in the banking sector in industrialized countries have been shown to increase productivity of banking industry around the world, The study charts out the path of technological innovation in the Indian banking industry in the post-economic liberalization (1991–2000) and identifies initial conditions in terms of competitive environment and regulatory pressures that have contributed to the diffusion of these innovations. The study highlights the role of labour unions in public sector banks and their initial opposition to technological adoption.

Another study by **Ferreira and Godinho (2005)** has identified the relationship between innovation and performance for services sector. The study uses the firm level data from the second Community Innovation Survey (CIS) to estimate a simultaneous equations model for firms in ten services sector in Portugal. The model used in the study consists of a system of two simultaneous equations: the first one explains the innovation effort intensity (an input to innovation process); and the second one relates the service innovation (an output to the innovation process) to effort intensity. The effect of innovation output on innovation input is positive and is significant. The estimated effect of innovation output on labour productivity is very large but negative.

Technology has transformed the delivery channels by banks in retail banking. It has also impacted the markets of banks. **Janki (2002[xi]**) analyzed that how technology is affecting the employees' productivity. **Hua (2009[xii])** investigates the online banking acceptance in China by conducting an experiment to investigate how users' perception about online banking is affected by the perceived ease of use of website and the privacy policy provided by the online banking website.

Jalan (2003[xiii])articulated that IT revolution has brought about a fundamental transformation in banking industry and opined that perhaps no other sector has been affected by advancement in technology as much as banking & finance.

OBJECTIVES OF THE STUDY

1. To examine various innovative practices adopted in banks under study.
2. To analyze the implementation of innovative practices.
3. To find out the factors that hinders the implementation of innovative practices.
4. To suggest measures to improve the effective implementation of innovative practices.

PERIOD OF THE STUDY

A period of 5 years has been selected for the study beginning from 2009 to 2013.

Methodology

The present study is based on primary data and secondary data. Primary data has been collected through questionnaire and direct query. Sample selected is 5 banks out of 21 public sector banks in Tiruchirappalli .Sampling technique used is systematic random technique. Secondary data has been collected through websites and journals.

Tools for Analysis

For evaluating and analyzing the performance of proposed topic under the study, simple statistical tools such as percentage is used.

LIMITATIONS OF THE STUDY

1. The study is limited to 5 public sector banks only.
2. The study is limited to 5 year period only. (2009-2013)

DATA ANALYSIS AND INTERPRETATION

INNOVATION INPUTS IMPLEMENTED

	State Bank of India	Indian Bank	Bank of India	Canara Bank	Syndicate Bank	Percentage
Product Innovation	✔	✔	✔	✔	✔	100
Process Innovation	✔	✔	✔	✔	✔	100
Organizational Innovation	✔	✔	✔	✔	✔	100
Research & Development	✔		✔			40

Source: Primary Data

Interpretation:

This Table indicates innovation inputs used by the public sector banks under study. All 5 respondent banks introduced innovations with regards to product, process and organization. Only 2 respondents have not touched the field of research and development.

Inference:

60% of the respondent banks did not introduce innovations in the area of research and development.

PROCESS INNOVATIONS IMPLEMENTED

	State Bank of India	Indian Bank	Bank of India	Canara Bank	Syndicate Bank	Percentage
Mobile Banking	✔	✔	✔	✔	✔	100
Net Banking	✔	✔	✔	✔	✔	100
Filing IT returns	✔					20
Online Taxation	✔	✔	✔	✔	✔	100
Employee Retraining Schemes	✔			✔		40
Electronic Communication System	✔	✔	✔		✔	80
RTGS	✔	✔	✔	✔	✔	100
INFINET	✔			✔	✔	60
NECS	✔		✔	✔	✔	80

Source: Primary Data

Interpretation:

This Table indicates the process innovations implemented by the public sector banks under study. All 5 respondent banks implemented mobile banking, net banking, online taxation and RTGS. 4 banks implemented electronic communication system.2 banks implemented employee retraining schemes. Only 1 bank implemented innovation in filing IT returns.

Inference:

80% of the respondent banks did not implement innovation in filing IT returns. 60% of the banks did not implement innovation in employee retraining schemes.

PRODUCT INNOVATIONS IMPLEMENTED

	State Bank of India	Indian Bank	Bank of India	Canara Bank	Syndicat e Bank	Percentage
Credit Card	✔	✔	✔	✔	✔	100
Debit Card	✔	✔	✔	✔	✔	100
Smart Card	✔	✔	✔	✔	✔	100
Demat a/c	✔	✔	✔	✔	✔	100
Young Stars a/c	✔		✔	✔	✔	80
Senior Citizens a/c	✔	✔	✔	✔	✔	100
Green Card	✔		✔			40

POS	✓	✓	✓	✓	✓	100
KCS	✓	✓	✓	✓	✓	100
No frill a/c	✓	✓	✓	✓	✓	100

Source: Primary Data

Interpretation:

This Table indicates product innovations implemented in the public sector banks under study. All 5 banks implemented major product innovations except Young Stars a/c and green card. 4 banks only implemented Young Stars a/c. Only 2 banks implemented green card.

Inference:

60% of the respondent banks did not implement innovation of green card. 20% of the respondent banks did not implement innovation of Young Stars a/c.

ORGANIZATIONAL INNOVATIONS IMPLEMENTED

	State Bank of India	**Indian Bank**	**Bank of India**	**Canara Bank**	**Syndicate Bank**	**Percentage**
Pass Book Printing	✓	✓	✓	✓	✓	100
Instant Tea Provider						0
Counter Caption	✓		✓	✓		60
Interior Decoration	✓	✓	✓			60

Source: Primary Data

Interpretation:

This Table indicates organisational innovations implemented in the public sector banks under study. All the banks have passbook printing facility.3 banks made innovation related to interior decoration and counter captions. Instant tea provider is not yet implemented in any banks.

Inference:

All respondent banks implemented passbook printing machine. But 40% of them did not implement innovation in interior decoration and counter caption.

FINDINGS, SUGGESTIONS AND CONCLUSION

FINDINGS

1. 60% of the respondent banks did not introduce innovations in research and development field.
2. 80% of the respondent banks did not implement innovation in filing IT returns. 60% of the banks did not implement innovation in employee retraining schemes.
3. 80% of the respondent banks did not implement innovation of Young Stars a/c. 20% of the respondent banks did not implement innovation of green card.
4. All respondent banks implemented passbook printing machine. But 40% of them did not implement innovation in interior decoration and counter caption.

SUGGESTIONS

1. Public sector banks should introduce more innovations in research and development field.
2. Public sector banks should implement innovation with regards to filing IT returns.
3. Public sector banks should implement innovation of green cards.
4. PSBs should implement innovation in interior decoration and counter caption.
5. PSBs should use newspaper ads as a source of information to customers regarding the implementation of innovative practices.
6. PSBs should use online tutorial for training branch managers to operate the innovative practices.

CONCLUSION

In earlier days, public sector banks were playing a greater role among the general public of India providing favorite type of services. But due to the advent of private banks and foreign banks, the public sector banks are struggling. They need to compete with other sector banks with innovative approaches and services. Public sector banks need to think 'out-of the box'. They still stick to the tested, tried things that always worked in the past. In this fast moving treadmill of changes, banks should try to adapt with changing environment. They would have to think outside the boundaries of current practices, products, services and organizations, in order to be successful.