TECHNOLOGY UPGRADATION IN INDIAN BANKING SECTOR
– AN OVERVIEW

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ABSTRACT
This article highlighted the technology upgradation in Indian banking sector. Banking industry is considered as the backbone of Indian economy. The banking system will undoubtedly have to play the protagonist role in this transformation. Not only are we going to witness a sustained rise in banking assets, but we will also see an increasing sophistication of products and solutions, banking of the ‘unbanked’ and rapid consolidation in the sector — in short, a ‘life-cycle transformation’! In order to remain a relevant partner in India’s growth, Indian banks need to embrace the mantra of ‘Inclusive Growth’ and ‘Creative Destruction via Innovation’ in order to cope with the growing needs of the economy. After liberalization of the policies by the government, the banks have to be more competitive and performance-oriented in the new environment. It has become quite difficult for them to survive, perform and succeed in the market. Under these circumstances, there is a need to have a look at the emergence of the Indian banking system right from its early days till now. Commercial bank renders very valuable service to the community. The economic growth of a country is measured on the basis of per capita income and the standard of living of the people. Per capita income is determined by the production of agricultural products, industrial products and performance of service sector. Service sectors include banking, insurance, transport, trade, etc., Infact banking is necessary for all activities of the country. Therefore banking plays vital role in the economic development of the country.

Keywords: Technology Upgradation, Internet Banking, Mobile Banking, Cashless Banking, Branchless Banking.

INTRODUCTION
In the year 1786 India’s first bank was established called General Bank of India which was followed by Bank of Hindustan and Bengal Bank. In 1809, the Presidency Bank of Bengal was established which was followed by the establishment of Presidency Bank in Bombay in 1840 and Presidency Bank in Madras in 1843. The Reserve Bank of India Act was passed in the year 1934 and after independence Reserve Bank of India was taken over by Government by the passing of the Transfer of public ownership Act. The shareholders of Reserve Bank of India were paid compensation. In 1949, the Banking Companies Act was passed which gave powers to Reserve Bank of India to control the working of commercial banks.

OPERATIONAL DEFINITION
Bank
According to section 5(b) of the Banking Companies Act, 1949 defines banking as “accepting for the purpose of lending or investment of deposits of money received from the public, repayable on demand and withdrawal by cheque, draft, and order or otherwise”. It is clear that a bank after accepting deposits from the public lends in various assets which brings revenue to the bank. Out of such earnings, the bank will not only repay the deposits as and when demanded by the public but will also pay interest on the deposits.

A scheduled bank, in India, refers to a bank which is listed in the 2nd Schedule of the Reserve Bank of India Act, 1934. Banks not under this Schedule are called non-scheduled banks. Scheduled banks are usually private, foreign and nationalized banks operating in India.

Banking
The business conducted or services offered by a bank
Technology

Technology will define banking contours in the future. This would include big data, cloud computing, smart phones and other such innovations. ‘Omni-channel’, not multi-channel, will redefine the way customers interact with banks. For example, disseminating personalised offers on customers’ mobile phones, use of home video-conferencing system for personalised connect, leveraging face-detection technology for efficient cross-sell are some of the avenues through which technology will aid banking in the future. Mobile banking and mobile payments/commerce is truly the future. There are over 900 million mobile users in the country but only 40 million mobile banking customers. In this respect, the JAM Trinity (Jan Dhan-Aadhar-Mobile) has the potential to change the face of banking.

Upgradation

Upgrading; the act or process of improving the quality of something

BRIEF HISTORY OF BANKING SECTOR IN INDIA

Three important phases can be identified in the history of Indian baking sector as follows:

- **Pre-Nationalised period**
- **Banking sector reforms**
- **Financial and banking sector reforms**

On the recommendations of the All India Rural Credit Survey committee, a leading commercial bank was to be taken over. The main purpose of this taking over of the commercial bank was to provide adequate funds for agriculture and rural industries. In May 1955 Imperial Bank of India was nationalized and State Bank India came into existence. Thus, the first commercial bank Nationalized in India was State Bank of India, along with seven other subsidiary banks also were set up and they are called SBI group of banks. Till 1966, the majority of commercial banks in India were only with the private sector and Government could not effectively control them. There were serious arguments for the nationalization of commercial banks.

However, on 19th July 1969, 14 major scheduled banks in the country were nationalized. The ordinance for the taking over of these banks was questioned by the private sector bank. The Supreme Court struck down the ordinance by finding defects in the compensation decided by the Government. In 1970, a comprehensive Act was passed called Banking companies Act. By this the taking over of major schedules banks became absolute. Another six more banks were nationalized in 1980. The total number of public sector banks was 28. But, at present the total number stands at 27 with the merger of New Bank of India with Punjab National Bank. Even the Bank of Tanjavur Ltd., which was in the private sector, has been merged with Indian Bank.

Creative destruction

Banks will need to focus on innovation that raises competition and leads to better and cheaper services for customers. Banks may also partner to achieve scale and find best practices, combining their infrastructure into JVs. Also, outsourcing utilities like customer authentication, fraud checking, payments’ processing, account infrastructure, KYC processing, to existing technology service providers, could be key steps going forward.

Cashless banking

In Sweden, four out of five transactions are cashless. In India, use of hard cash peaked at 11.5 per cent of GDP in 2009. Since then, it has moderated but continues to remain high at 10.5 per cent as of 2014. In the future, cashless banking will revolutionise ease of doing transactions with further penetration of internet.

Branchless banking

Branchless banking could help in achieving economies of scale in revenue generation and cost management. The increasing trend of branchless banking is leading to closure of traditional brick-and-mortar branches in advanced countries (Bank of America closed down more than 1,000 branches in last five years). Banking business model innovations could be combined with national platforms such as Aadhaar to reduce customer acquisition cost by 40 per cent in order to make branchless banking model even more viable.
Innovation in ATMs

As per World Bank estimates, the operational cost per transaction for Indian Banks is 48 per Branch, 25 for phone banking, 18 for ATM, 8 for IVR (Interactive Voice Response) and 4 for online. India has poor ATM penetration — there are only 11 ATMs for every 1 million people in India compared to 37 in China and 52 in Malaysia. In this regard, Solar ATMs could reduce set up cost by almost 50 per cent and also cater to power scarce rural areas.

Infrastructure financing

India has 5-per cent share in the global infra market, which is expected to increase to 9-10 per cent by 2025. The futuristic development models will evolve on the lines of 5:25 structure and PPP model for long-term financing. Additionally, there will be new arrangements in the form of Infrastructure Debt Funds, Green Banking and Viability Gap Funding.

MSMEs

The MSME sector contributes 8 per cent to the country’s GDP. SIDBI has estimated the overall debt finance demand of the MSME sector at $650 billion. New structures such as Cluster Based Financing, Capital Subsidy Policy for Technology Upgradation, MUDRA Bank, Credit Guarantee Schemes, Incubation Centres and start-up facilities will play an important role in the coming years.

Risk management

As businesses evolve and the scale of banking increases, principles like dynamic risk management with Early Warning Signal approach need to be strengthened. US (Resolution Trust Corporation) and South Korea (Korea Asset Management), set up ARCs nearly 20 years ago to effectively dispose-off bad assets, paving the way for their ‘de-stressed’ banking future. The idea of setting up a National Asset Management Company, which will pool the larger stressed assets into one and find a suitable resolution package, needs to be taken forward.

Easier expansionary rules

I believe that in the future, it will be important to allow easier M&A in the banking space to achieve scale, along with freedom to setup branches and ATMs as desired. These 10 developments will present opportunities that will be critical for catapulting Indian banks in the top global league.

Technology in Indian Banking Sector

Information and communication technology incorporation by the banks have changed the way in which banking is being done, worldwide. These changes have been pioneered in India by new private sector and foreign banks to enable them to reach a wider customer base as they had limited number of branches. However the public sector and the old private sector banks which were following the traditional method of banking till a few years ago have also realized the benefits that could be reaped through the introduction of technology in their day-to-day operations. So they are also of late increasingly pursuing a technology-centric strategy in banking operations and services delivery as manifested by their adoption of core banking solutions and the introduction of technology-enabled banking solutions (Sambrani and Suryanarayana, 2007).

Banks in India have therefore realized that technology strategy has become the corner stone of their business strategy and it provides totally new ways of effecting customer transactions and interactions (Godse, 2005). Thrust on the usage of IT in the financial sector in India was heralded by the report of Rangarajan Committee on Mechanisation in Banks, 1984. This report, which is a land mark one, was prepared by the committee constituted under the chairmanship of Dr.Rangarajan in September 1988 to draw up a prospective plan of computerization for a five year period commencing from 1990 to 1994 for the banking industry. This committee identified the purposes of computerization as improvement in customer service, housekeeping, decision-making, profitability and productivity. V.Leeladhar (2006), Deputy Governor, RBI has described technology as a key driver in the banking industry, the infusion of which has led to new business models and processes. This has revolutionized the provisioning of banking services through introduction of new distribution channels.

Banks which have not made enough investments in technology are at peril as they will soon find their customer base eroding. Those banks which have invested in technology have gained great mileage through improved competitive advantage and are potentially poised to attract increased market share. Technology adoption has also improved the quality of risk management systems in banks.

Evolution of delivery channels

Traditionally, banks in India relied extensively on their reach afforded by their vast branch network to effectively put emerging banks out of competition. This was a high cost strategy considering the high real estate and bank operating expenses. This forced new banks to develop strategies that could help them reach out to end customers in cost-effective ways. The solution came in the form of delivery channels such as Automated Teller Machines or ATMs, and internet banking. They turned out to be the growth drivers for private banks in India (Srikanth and Padmanabhan, 2002). With the infusion of technology into the banking systems it is now possible for the banks to provide multiple delivery channels for provisioning of banking products and services. In India the traditional ‘brick and mortar’ banks are complimenting their operations with ‘brick and click’ strategy. The changed strategy on delivery channels is faced with attendant problems little known before.

Electronic Banking or Technology-Enabled Banking Self- Services (TEBSS)

In the present study the terms ‘Technology-Enabled Banking Self-services’ and ‘Electronic Banking’ have been used interchangeably. Several definitions of electronic banking exists in the literature. According Daniel (1999), it means the provisioning of information and services by a bank to its customers via computer, telephone or television. According to her, it can also mean the access to the banking services via kiosks or ATMs located in work places or at public locations such as an airport or a railway station. Uppal (2007) takes a broader definition to include all the services provided by banks through all types of electronic delivery channels such as telephone, internet, cell phone and so on. Hence as per this definition banking services such as internet banking, telephone...
banking, mobile banking and services provided through ATMs are all brought under its purview. Sharma (2007) gave a rather interesting definition of electronic banking when he equated it as ‘providing banking service to customer at his/her office/home or at any other place or time wherever the person is—be it traveling, shopping or even in a stadium through the usage of electronic technology’. The new delivery channels such as ATMs, Telephone Banking and Internet Banking along with better access to customer information have reformed the relationship between banks and customers. Banks are now able to process the customer information for a number of purposes. They have the opportunity to market their products and services online and additional financial services like Bank assurance can be targeted at the existing customers and prospects, thus facilitating customization to suit the needs of individual customers (Godse, 2005).

Automated Teller Machines (ATMs)
Automated Teller Machine or ATM as it is popularly known is a device that allows customers who have an ATM card to perform routine transactions without interacting with a human teller. In addition to cash withdrawals, ATMs can handle deposits and enquiries, arrange loans and insurance, arrange buying and selling of stocks and advise customers on different savings and investment schemes (Manoharan, 2007). HSBC was the first bank to introduce the ATM concept in India way back in 1987. New private sector banks have taken the lead in introducing ATMs initially in a big way to supplement their branch network and to compete with large public sector banks with many branches. ICICI, UTI, HDFC and IDBI together used to account for more than 50% of the total ATMs in India about two years ago. ICICI Bank was the first bank to cross the 1000 mark in India (Thamaraiselvan and Raja, 2007). But the current scenario has entirely changed with the banks in the public sector like SBI and its associates, Corporation Bank and Syndicate Bank aggressively pursuing the installation of ATMs across the country. It can be seen from table 2.1 that the total number of ATMs installed by the banks was 27088 as on 31st March 2007 whereas by the same period in 2006 it was 21,147 registering a growth rate of 28 percent over the previous year. Nationalised banks constituted the largest share of installed ATMs, followed by the new private sector banks, SBI group, old private sector banks and foreign banks. While new private sector banks and foreign banks had more off-site ATMs, nationalized banks, SBI group banks and old private sector banks had more on-site ATMs. Understandably foreign banks and new private sector banks depend on off-site ATMs to overcome the limitation of having less number of branches. It is also worth noting that the number of ATM installations as compared to the number of their branches is 3.28 times more for the new private banks and 3.5 times more for the foreign banks.

Internet banking
Internet banking involves the use of Internet for delivering banking products and services which include transfer of funds, ordering demand drafts, payment of utility bills, stop payments on cheque, obtain account balance, view one’s statement of account online and applying for loan.

Some of the advantages of using internet banking as far as customers are concerned are:

• The customers can have access to internet banking 24 hours a day and seven days a week.
• It is cheaper than physically going to the bank branch and they don’t have to wait in a queue to receive services.
• Customization of banking needs to suit the user is possible
• Customer can avail the banking services without any geographical constraints.
• A multitude of different banking products and services are provided to the customers.

Internet banking provides certain benefits to the bankers as well such as reduced cost of provision of service, savings on manpower, increased productivity and opportunity to target new customer segments. Dinz (1998) developed a model to classify the services delivered through internet banking into three roles having different levels like basic, intermediate and advanced levels of services under each role. The different roles mentioned for internet banking are:

• Informational : for providing information
• Transactional : for conducting transactions
• Relationship : for improving customer relationship

As per the RBI’s classification in their Report of Internet banking (2001) the levels of banking services offered through internet can be categorized into three types:

i. The basic level service is the banks’ websites which disseminate information on different products and services offered to customers and members of public in general. It may receive and reply to customers’ queries through e-mail.

ii. In the next level are simple transactional websites which allow customers to submit their instructions, applications for different services, queries on their account balances etc; but do not permit any fund-based transactions on their accounts.

iii. The third level of internet banking services are offered by fully transactional websites which allow the customers to operate on their accounts for transfer of funds, payment of different bills, subscribing to other products of the bank and to transact purchase and sale of securities etc.

The above forms of internet banking services are offered by traditional banks, as an additional method of serving the customer or by new banks, who deliver banking services primarily through internet or other electronic delivery channels as value added services.

ICICI bank was the first one to offer online banking way back in 1996 with the launch of ‘infinity’ and other banks especially those belonging to new private sector and foreign banks followed suit. ICICI Bank kicked off online banking way back in 1996 and a host of other banks soon followed suit. The period from 1996 to 1998 marked the adoption phase even for the internet as a whole. The usage increased only by 1999 as a result of lower online charges and increased PC penetration combined with a tech-friendly atmosphere. After ICICI Bank, Citibank, IndusInd Bank, HDFC Bank and Timesbank (now part of HDFC Bank), were the early ones to introduce online banking (Rajneesh De and Padmanabhan, 2002). At first the online banking facility was used as a vehicle for meeting the information requirements of the customers and gradually transaction facilities like fund transfer and third party transfers

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were introduced. The proposed setting up of a Credit Information Bureau for online collection and sharing of credit information on borrowers has boosted internet banking. The deadline set up by the Chief Vigilance Commissioner for computerization of not less than 70 per cent of the bank’s business by end of January, 2001 also gave a thrust to development of banking technology. The recommendations of Vasudevan committee on technological upgradation of banks in India also gave impetus to the implementation on a large scale (Mann and Sahni, 2007). Malhotra and Singh (2004) had studied the status of internet banking offered by the private, public and foreign banks operating in India during the year 2004. Their finding at that time was that even though 90 out of 93 of these banks were having websites only 48 of the banks had transactional websites of which they could classify only 34 as fully transactional websites. Of late many public sector banks and scheduled commercial banks like State Bank of India, Bank of India, Bank of Baroda, Syndicate Bank, Allahabad Bank, Punjab National Bank and soon have taken a lead in this area and set up fully transactional websites.

**Internet banking issues**

The main issues in internet banking today relate to security, authentication, non-repudiation, internet banking business continuance plan, customer awareness creation about security aspects and security awareness breach detection and reporting. These issues are not only important for the banks but also they are essential to build customer confidence and satisfaction (Kumar et al., 2007). **Security:** Information is an important asset in internet banking, so proper measures have to be taken to protect it through information technology infrastructure and software. **Authentication:** there has to be a method of identifying and verifying the identity of the user, so that unauthorised persons cannot gain access. **Non-Repudiation:** to verify whether the transactions have been effected through proper encryption measures and digital signature. **Business Continuity Planning:** to ensure transaction despite any interruptions. **Customer security awareness creation:** educating customers about preventive measures. These measures are essential as there is increased threat of phishing or online identity theft according to a study by Gartner, as cited by Balaraju and Balakrishnan (2008). They also found that most of the senior bankers surveyed by them (97%) felt that phishing is a threat to their online banking services and they also felt that most of the customers have low knowledge levels about it. Stronger authentication such as two factor authentication, usage of biometrics, quantum cryptology along with proper customer sensitization are required to increase security and reduce stealing of customer data (Joshi, 2008).

**Tele banking**

Telephone banking which is still another form of technology-enabled banking providing various banking services in the self-service mode through the telephones to its customers. A customer can carry out transactions by accessing his/her account through telephone at any time or from any place throughout the country with the same Telebanking PIN. Telebanking is offered by the banks (Kunjukunju, 2008) through a technology known as Interactive Voice Response System (IVRS). To guarantee security the customer must first authenticate through a numeric or verbal password or through security questions asked by a live representative, a process known as authentication. With the obvious exception of cash withdrawals and deposits, it offers virtually all the features of an automated teller machine account balance information and list of latest transactions, electronic bill payments, funds transfers between customers’ accounts and so on. Another variant of tele banking is sometimes called the phone banking in which a customer talks to a phone banking officer for transacting a banking business. But in the present study this particular service is not being considered as it does not come under the purview of the technology-enabled self-service. Here the service encounter is a telephonic encounter in which services are being provided by the service employee who interacts with the customer over phone.

**Mobile Banking**

Mobile banking is the latest addition to the technology-enabled banking. As the mobile phone penetration in India is quite high with an annual growth rate of about 83.17% mobile banking has immense potential to be a cost effective method of conducting banking transactions by the Indian customers including the rural population. Asian countries such as China, Indonesia, India and Philippines are high growth markets for mobile telephones. The Indian mobile sector crossed the 16.5 crore subscriber base at the end of the financial year 2006-07. The number of mobile subscribers has become 405.18 percent of the basic landline subscribers as on March 31, 2007 (Srivastava, 2008). Mobile banking refers to the provisioning and availability of banking and financial services through the mobile technology. Mobile banking can be provided as a value-added service for the existing customers and at the same time it has the potential to be used as a means to bring into the banking fold the unbanked and underbanked segment of the population. The pioneering bank to offer mobile banking services in India was ICICI bank in the year 1999, followed by HDFC bank and IDBI bank (Aithal, 2008). Among the 11 prominent private sector banks, seven are providing mobile banking facility to their customers. State Bank of India, Bank of Baroda and Corporation Bank are some of the public sector banks which have started offering this service to their customers. The classification of the services offered through mobile banking can be done depending on who originates the service ‘Alerts’ and ‘Request’ services. Alerts or push services happen when bank sends out information based on an agreed set of rules, for instance the bank sends out an alert when a client’s account goes below a threshold level, or when a debit or credit occurs above a certain limit and so on. Request or pull happens when a customer explicitly initiates a service or information from the bank. Last three transactions, bill payments, cheque book request are all examples of the request services. Another way to classify the services is based on the nature of services, whether it is transaction-based or enquiry-based. So a request for bank statement is enquiry-based service and a request for fund transfer to some other account is a transaction-based service. Mobile banking can be enabled through two technologies of which one is SMS (short messaging service) based and the other one being WAP (wireless application protocol). In India, mostly SMS based mobile banking is provided by the banks offering mobile banking since in a country like India majority of the mobile phone users’ handsets have only SMS based services and it is easier and economical to provide the service. But the disadvantage is that the SMS based mobile banking will not be able to support the full breadth of transaction based
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The Technology-Enabled Banking Self-Services scenario

Reflecting on the developments that have taken place during the past three years in the banking technology field in the Indian banks, the RBI has stated the following in its latest Financial Sector Technology Vision Document, 2007:

1) Core Banking Systems (CBS) implementation is in full swing with all banks at varying stages of implementation of the same in their branches.

2) This has resulted in the computerization and networking of branches on a larger scale as it is a necessary and essential condition for the implementation of CBS.

3) Even a few of the older banks have now fully implemented CBS across all their branches.

4) There has also been tremendous growth in the use of payment and settlement systems for fund transfers using electronic means, which shows a welcome shift from traditional paper-based transaction flows.

5) Most importantly, one of the major developments during the period was the introduction of new delivery channels for customers. Internet banking, mobile banking, mobile automated teller machines, multifunctional ATMs, shared ATM services, large scale usage of Real Time Gross Settlement (RTGS) for quick, immediate funds transfer and smart card-based transactions as part of initiatives aimed at financial inclusion are some of the landmark developments during this period.

Global E-banking Scenario- Glimpses from Select Countries

Finland was the first country in the world to take a lead in e-banking. Online banking was launched in Finland in the year 1996. It has become common place across that country with penetration rates of over 50 per cent, with penetration rates of over 60 per cent among private bank customers and in some age categories (35-49) in the year 2004 according to the Finnish Banking Association’s survey of usage of credit, the penetration rate is over 70 percent (Pikkarainen et al., 2006) As per the latest results about 84 percent of the Finns use internet today with the usage of internet banking at 67 percent for activities such as bill payments. This is a tremendous leap from only 4 percent of the interviewees using internet for bill payments in the year 1992. The usage of ATMs and Telebanking is found to be coming down according to the Finnish Banking Association survey Spring 2007 report on ‘Saving and borrowing in Finland’.

The number of people paying bills on ATMs has decreased further as compared to the previous year (2006). Use of direct debit has increased slightly in the past year while use of payment service has decreased a little. Telephone is used for paying bills by a very small number of Finns, only one per cent of the respondents. According to this report while 88% of respondents aged between 18 and 34 years pay their bills on the internet, the corresponding figures for age groups 55 to 64 years and 65 to 74 years stand at 50% and 20% respectively. More than 50 million of the US adult population is banking online according to a new survey by the Pew Internet & American Life Project (Susannah Fox and Jean Beier, 2006). This is a major growth considering the fact that in the year 2000 only about 14 million people used online banking sites. This has been facilitated by the growth in broadband connections, as it is found that broadband users are twice more likely to use internet banking than dial up connection users. Survey on internet banking in U. K. by Forrester Research during 2007 showed that about 31 percent of British adults use online banking. This is despite the fact that about two thirds (67%) of the British are regular users of the internet. Only about 46 percent of the internet users in Britain bank online.

The main reason why non-users are not going for net banking is because they are happy with the other channels, with 44% of them stating that they are happy to visit their branch, while others preferred banking through ATMs (33%) and telephones (11%). Security as a reason of non-usage was cited by only 31% of the nonusers. The study by Laforet and Li, 2005 in China shows that most of retail banks were providing online banking as add-on services to the existing branch activities and the mobile banking was in the initial stages. From their survey among six major cities in China among the relatively wealthy and youth segment who were the potential target segments for online/mobile banking they found that only 33% and 14% used internet and mobile banking respectively. These findings however, they said, were not representative of the Chinese population as a whole since the population in rural areas was not included in the survey considering the lack of accessibility and internet infrastructure.

Conclusion

The Indian banking sector is one of the largest sector in the world in terms of huge customers. The banking sector in India has become tougher in term of development and economic growth the number of customers in the financial sector. In the next generation will play a vital role in further strengthening the banking sectors. A brief overview of the Indian banking, its history with the changes that have taken place, the post liberalization period reforms and how it has culminated in the infusion of technology into the banking system with a view to improving-efficiency and productivity has been dealt with in this chapter. The various aspects regarding each technology-enabled banking self-service such as ATMs, internet banking, tele banking and mobile banking have been given. Nowadays, the new technology is sure that the future of banking will introduce more offers and services to the customers with the bust banking product and innovations. Banking sector also increased the accessibility of a common person to bank for his productivity and requirements. The Indian banking sector has improved the terms and new Technology. The innovative banking
technology changing reforms have changed the face of Indian banking and financial sector. The banking system has improve the manifolds in terms of product and services, technology, banking system, trading facility etc. it is the evident that the banking system has grown in India to compare with other country. Future, the banks comprehends their customer and bank will be meeting their requirements. Indian Banking Sector provides better services with other developed banks.

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