Impact of it on the banking sector in india

[Literature](), [Russian Literature]()

This presentation analyzes the performance of major banks in terms of productivity and profitability in the pre and post e-banking period. Under the regime of banking sector reforms, IT Act of 1999 gave new dimensions to the Indian banking sector. IT has created transformation in banking structure, business process, work culture and human resource development. It has affected the productivity, profitability and efficiency of the banks to a large extent. The presentation concludes that performance of all the banks under study is much better in post-e-banking period and further foreign banks are at the top position, whereas the performance of the public sector banks is comparatively very poor.

The 90s

In the beginning of 90’s, there were so many deficiencies were prevailing in the Indian economy, particularly in the financial sector and also in the banking sector. The major deficiencies prevailing at the time of early 90’s were productivity and efficiency of the system has suffered, its profitability has been eroded, several public sector banks and financial institutions had become weak financially, some public sector banks had been incurring losses year after year, their customer service was poor, their work technology was outdated and they were unable to meet the challenges of a competitive environment.

Keeping in mind all the above said distortions in the economic, financial and banking sectors, the government of India and the RBI thought it was necessary to introduce reforms in the financial and banking sector also, so as to promote rapid economic growth and development with stability through the process of globalization, liberalization and privatization in the financial system so that the financial system becomes more competitive and gets integrated with the world economy through internationalization of financial markets in the world.

Narasimham Committee Recommendations for Banking Sector Reforms

•The Government of India, under the chairmanship of Sh. M. Narasimham, an Ex-Governor of RBI, appointed the Narasimham Committee-I (NC-I) in April 1991. •The committee examined all the aspects relating to the structural organization, functions and procedures of financial system and submitted its report on November 16, 1991. •The NC-I had proposed wide ranging reforms for improving the financial viability of the banks, increasing their autonomy from government directions, restructuring unviable banks, allowing a greater entry of the private sector in banking, liberalizing the capital market, further improving the operational flexibility and competition among the financial institutions and setting up of proper supervisory system.

First Phase of Banking Sector Reforms (1991) A number of reform initiations have been taken to improve or minimize the distortions impinging upon the efficient and profitable functioning of banks especially reduction in SLR & CRR, transparent guidelines or norms for entry and exit of private sector banks, public sector banks allowed to direct access to capital markets, deregulation of interest rates, branch licensing policy has been liberalized, setting up of Debt Recovery Tribunals, asset classification and provisioning, income recognition and Asset Reconstruction Fund (ARF). These and other measures that have been taken would help the highly regulated and directed banking system to transform itself into one characterized by openness, competition, prudential and supervisory discipline.

Second Phase of Banking Sector Reforms (1998)

•The NC-II with Mr. M. Narasimham as the chairman was constituted on December 26, 1997 to review the banking sector reforms since 1991 and to suggest measures of further strengthening the banking sector of India. •The NC-II examined the second-generation of reforms in terms of three broad interrelated issues:

(i) action that should be taken to strengthen the foundation of the banking system (ii) strengthening procedures, upgrading technology and HRD and (iii) structural changes in the system.

The recommendations of the NC-I in 1991 provided the blueprint for the first generation reforms of the financial sector. The period 1992-97 witnessed the laying of foundations for reforms in the banking system. Cataclysmic changes were taking place in the world economy(dotcom boom/Rise of the IT cos), coinciding with the movement towards global integration of financial services. Against such backdrop, the committee NC-II, appointed for the said purpose generated its report in 1998, provided the roadmap for the second-generation reform process. These cover the aspects of banking policy, institutional, supervisory and legislative documents. The major recommendations of the committee were systems and methods of banking, structural issues, integration of financial markets, rural and small scale industrial credit and regulation and supervision.

Information Technology and Bank Transformation

•The second banking sector reforms gave much importance to the modernization and technology up gradation. The IT Act, 1999 started the speedy process of e-banking. •E-Banking: Delivery of bank’s services to a customer at his office or home by using electronic technology can be termed as e-banking. The quality, range and price of these e-services decide a bank’s competitive position in the industry.