Information Technology (IT) for banking commerce modernization

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Abstract
Information technology has become “main stream” for many organizations. In today’s business environment, IT is a fundamental and growing component of day-to-day commerce operations and represents a significant area of investment for many companies.

Key Words: IT, bank, commerce, business

I. INTRODUCTION

Technology can be a competitive advantage or a marketplace disadvantage. In recent years, the role of IT has been changing and, in some cases, radically. Rather than being seen merely as a utility, the function is increasingly expected to come up with innovative business improvements. Post-recession, organizations inhabit a very different global economy and IT has a vital part to play in supporting change and growth. With competition increasingly being shaped by a number of macroeconomic factors, IT leaders have to understand the dynamics of this “new standard” and work closely with the commerce to address the challenges.

The emergence of personal laptop computers, smart phones, enterprise resource planning systems, the growth of the internet, global sourcing and commerce, coupled with increasing threats to information security and the privacy of customer data, have made IT a core competency and strategic focus area for many companies. And the executives interested in IT are not just the CIO and the IT Director; CEOs, CFOs, COOs, as well as other middle level executives, business unit (BU) leaders and audit committee and board members are more concerned about IT than ever before. And they are not only concerned about IT risks, but also about the performance of the IT function.

Organizations are realizing the importance of having strategic IT roadmaps. While businesses have realized the importance of IT and the need for investments thereof; the question that arises now is that can they restructure their business to increase the level of flexibility and adaptability to market conditions? Where and how can they cut costs? How can we focus on core competencies? Can we source non-core work from outside? What are the models available? Which one suits me the best? How can I source from outside and still have control? What are the risks involved? Business leaders expect business restructuring to play an increased role in their company’s activities over the coming years and for many organizations, the IT function is clearly targeted as a priority.

II. INFORMATION TECHNOLOGY SUPPORT

Commerce and IT best must balance their vision for how IT can add value to the enterprise, while addressing concerns such as levels of IT service and support, program delivery and other fundamental operational needs. Many organizations need to counter significant challenges to:

- Align IT strategy, investment and efforts with the business strategy.
- Provide IT enablement for key business process and major transformations e.g., supply chain, finance, customer.
Increase the overall return on IT investments.
Reduce the cost and effort required for IT to maintain required levels of support.
Establish effective IT sourcing strategies.
Improve the management of security, risk and compliance issues related to IT.
Measure IT performance.

With the economy showing signs of recovery and businesses turning their attention to pursuing new market opportunities, it is a good time now to focus on establishing IT as an efficient and controlled business function.

There are several options available to organizations for reshaping and restructuring their IT function, including centralizing functions in a shared service centre, relocating for better access to cheaper labor or specialized skills, or sourcing IT functions to a service provider. The benefits that a right technology decision offers are myriad, making it one of the most preferred options for restructuring. At their most basic level, IT sourcing strategies are about plans, directives, policies and decisions that determine how to integrate internal and external resources and services to achieve business outcomes. One of the most important aspects of any IT strategy is that it is developed in a manner that is consistent with the overall business strategy. To do this effectively, there must be an understanding of the role of IT and how it supports and drives the business strategy. The current volatile and dynamic market conditions are urging organizations to outsource IT services with an aim to reduce costs and strengthen IT efficiencies. The decision however is more complex as technology is taken as a strategic enabler, which makes sourcing a more important strategic decision.

III. IT FOR INDUSTRY MODERNIZATION

Industry innovation has become a serious survival quotient for many firms today. Information technology powers the rapid pace of innovation by all businesses around us. The senior management at banks and financial services firms see innovation as an important parameter to improve the performance of their companies. The investments toward technology and innovation have increased substantially. These investments are usually realized over a large period of time and are also subject to the firms achieving the scalability, which was envisaged. Some of the trends in business innovation and information technology noticed in banks are in the following areas:

Trends in modernization in products and services offered:
A. Auto Sweep Facility
With an objective to deliver higher value for the savings account customers, banks have designed savings accounts with an auto sweep facility with the help of technology. The product feature works in a way that when the balance exceeds a given threshold value, the same is converted into a fixed deposit. If the balance falls, the fixed deposit is automatically broken and the balance is automatically credited back to the savings account of the customer. This facility provides a greater yield for customers on ideal funds and help banks retain low-cost deposits.

B. Smart Cards
The processor type smart cards with built-in integrated circuits (ICs) or microchips offer a wide range of transactional opportunities even from remote areas. Smart cards are extensively used for transactions such as cash withdrawals from ATMs, payment of bills and online purchases.

C. Electronic Fund Transfer
Real time gross settlements (RTGS) and national electronic funds transfer (NEFT) have transformed the way funds transfers are done. Moving from three to four days for clearing and funds transferred, banks have moved to real-time transfers using online channels and mobile phones.
D. Virtual Bank
Multimedia technology has been quite effective in bringing banking services to the doorstep of its customers. The customer-activated terminal (CAT) or self-banking stalls are an interactive multimedia display unit, housed in a small enclosure, which typically consists of a computer workstation, monitor, video disk player and a card reader. It enables customers to browse through the information and use the available banking services at their own speed. Some banks have established virtual or self-banking branches where the customer enters the branch, explores services on the touch screen and at any time calls up members of the bank staff by video conferencing. While customers get the convenience of 24X7 banking, the bank saves in heavy real estate and manpower costs when compared to establishing a branch.

IV. MODERNIZATION TRENDS IN PROCESS
AUTOMATED WORKFLOWS:

- **Electronic Data Interchange (EDI):** EDI typically denotes paperless financial transactions across the locations within the banks and with customers. EDI is fast becoming a norm for intercompany transactions as well as for the procurement of items bought from suppliers. For example, the account opening, the forms and documents are scanned and sent to the centralized operations unit of the bank to facilitate speedy account opening. Banks in Singapore allow electronic submissions by clients by uploading documents and establishing trade net, which reduces the delivery time from days to minutes.

- **Image Processing:** As financial services, including capital markets and banking, are highly document intensive image processing technology can have a far-reaching impact for such applications for its less-paper characteristics. Image technology in banks can be used for automatic identification or character recognition to read text and diagram wherein the cheques or documents can be scanned.

CUSTOMER RELATIONSHIP MANAGEMENT:

Many banks have strengthened their focus on customer service and have implemented business intelligence (BI) and customer relationship management (CRM) applications in the organization. These applications help banks to capture the customer expectations better and manage the information of a large customer base of banks in a scientific manner to provide intelligent and useful customer information to the banks.

**Delivery Channels:** With the improvisation of delivery channels to the establishment of new deliver channels, this is one area where banks have seen the highest level of the impact of technology.

**ATMs:** Automated teller machines have reduced costs per transactions to almost one-fourth as compared to the branches. ATMs support a variety of transactions such as cash withdrawal, cash deposits, cherub deposits, placement of service requests, including the request for a new cheque book. New technology has facilitated the installation of in-wall ATMs, which are weather-proof and can be established in shopping malls or busy commercial localities and have further reduced the transactions and operations costs for banks.

**Net Banking:** Internet banking has helped the scalability of banks and served customers to maintain and manage their accounts without a need to visit the bank. Customers can now process diverse transactions with internet banking. They can view transaction details, transfer funds, pay bills as well as make purchases. Internet banking has further reduced the costs per transactions of banks and is even lower than the cost per transaction done at ATMs.

**Mobile Banking:** Transactions using GPRS-enabled mobile phones and SMS alerts are the latest innovations in delivery channels. Customers can view transactions, transfer funds, pay bills and make
purchases through mobile banking. SMS alerts are sent to customers for all transactions made by them above a specified value. Customers can also request to know their balances and the last few transaction details by sending an SMS.

IT has continued offering more than just operational support and helps create a competitive advantage. For example, in a service industry, the speed of response in customer care may be more of a priority to differentiate the offering.

The extent to which IT facilitates agility also depends largely on the role of the department. While IT is seen more as a utility that supports day-to-day operations, it is unrealistic to expect highly innovative thinking.

Outsourcing has also aided quickness. However, many businesses are mainly focused on the savings this can bring. And by revisiting the opportunities opened up by cloud computing and virtualization, organizations have become more flexible at lower costs, reducing the need for investments in infrastructure.

V. MODERNIZATION IN COMMERCE MODEL

Technological innovations have had such a significant impact that they have transformed the models of banks

- **Core Banking (anywhere Banking)**
- Most banks in India support anywhere banking for their customers. This is established by the core banking solution implemented across the bank, which provides the same and live customer account view to all branches across the bank at any point of time.
- The centralization of back-office operations and innovations such as virtual experts at branches is instrumental in transforming the role of branches to advisory hubs from being mere transaction processing centers.
- Modern branches have a video conferencing facility where they can connect to the excerpts to seek their advice from branches. Branches with a video conferencing facility can also receive online training and attend online meetings and town halls, eliminating the need for branch professional to travel frequently.
- **Financial inclusion**
  - Branchless banking comprises essentially all of the following elements:
  - Use of technology, such as payment cards or mobile phones, to identify customers and record transactions electronically and, in some cases, to allow customers to initiate transactions remotely
  - Use of (exclusive or nonexclusive) third-party outlets, such as post offices and small retailers, who act as agents and enable customers to perform functions that require their physical presence such as cash handling and customer due diligence for account opening
  - Offer of at least basic cash deposits and withdrawal in addition to transactional or payment services

- **Advantages of branchless banking**
  - The service provided at their doorstep/village also helps save time.
  - This is user friendly and hassle free for villagers as there are no challans/vouchers.
  - The business correspondent (BC), being a permanent resident of the village, knows the people and their requirements and can assist customers at any time of the day.
  - The cost of transaction is reduced considerably.
  - This equips banks to handle large volumes with less staff.
  - This model reduces the pressure on the counters at rural branches.

**Humanizing Operational quickness:** The speed with which a company can respond and adapt to market changes has a direct influence on how effectively it can compete. To understand market movements, many companies are looking to increase their analytical capability, utilize business
intelligence systems and gain better access to data. And by investing in the right processes and people, by seeking opportunities to collaborate or outsource, they can respond quickly to changes in demand. An organization’s ability to innovate is critical to its success.

**Cost competitiveness:** Optimizing costs is about more than just reducing expenditure. It starts with managing the pricing process, investing in productivity and passing on the pressure to others by seeking better commercial terms from partners. Growth has a cost, so financing and optimizing capital are also important elements of cost competitiveness.

**Increase stakeholder confidence:** To meet the need for greater transparency, companies are engaging with stakeholders by identifying and explaining any risks, anticipating regulatory requirements and providing enhanced reporting on financial, environmental and operational performance. There is a stronger focus on the importance of reengaging with internal stakeholders, notably the talent of organizations, to attract and retain the right people. With internet and advanced reporting, IT has played a significant role in transforming the way businesses communicate with their stakeholder.

**MAJOR PROBLEMS:**

While technology-focused possibilities of IT may be unlimited due to their application and adoption in India, there is a need to exercise a conscious approach for the business process re-engineering of existing practices and procedures to capitalize effectively on IT. Training and upgrading skills play a critical role in the absorption of new technologies.

- **Fraud:** The elimination of manual records with the introduction of electronic funds transfers and ATMs raises the important question of IT security. This includes issues related to the confidentiality of information, prevention of data corruption and cyber crime.
- **Costs:** IT initiatives usually consume a lot of capital expenditure for banks and the benefits are realized over a period of many years to come. Companies really need to prioritize IT expenses and conduct a detailed cost-benefit analysis before establishing the need for these technology initiatives.
- **Resistance to change by employees:** Irrespective of how good the applications or systems are, it is the people who will be required to enable the effective implementation and smooth transition of products and services toward new systems. Further, employees need to gain education and expertise in these systems to enable the firms to leverage on the investments and convert them to returns. It has been observed that large technology initiatives usually face a lot of resistance to change and low acceptance by the employees and therefore become the main reason for the failure of such implementation. Banks need to focus their efforts on the training and education of employees to enable the successful implementation of their information technology and convert investments into returns.

**VI. CONCLUSION**

Information technology provides a stage for companies to better communicate with customers; the IT atmosphere is a more efficient tool and infrastructure for commerce. With the further advance development of information technology, the banking industries will become a huge aggressive advantage for their business.

**VI. REFERENCES**