

Role and Impact of Vendors in the Indian Banking System

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Abstract :

Vendors have important role in Indian banking system. New generation private sector banks in India during 1994-1996, the real era of bank marketing started to offer anywhere and anytime banking facilities to its customers. The introduction of Core Banking Systems (CBS) which was at its nascent stages has become full blown and all banks are at varying stages of implementation of Core Banking Systems in their branches. Bankers manage customers, so they are front office managers. Vendors provide services, more important to core banking solutions and they are back office people. The present study focuses on various issues in banking after the introduction of vendors.

Keywords - Vendor management system, Core banking system, Electronic banking, Supply chain, Debit and Credit cards

INTRODUCTION

A vendor is the supplier of goods and services to another person or organization in the production chain or the supply chain. The vendor can be individuals or companies. The vendors can be large and well known and may be recognize and accepted within a country or at the international level. They are known as tire one vendors. The vendors could be smaller, they cover a limited geographical area, they are considered as secondary source then as preferred source. They are known as tire two vendors.

The banks have become more dependent on internets. After 1990's the banks have started using more software; a customer is not limited to a particular branch of the bank. With expansion of business at global level, there is requirement for the banks to outsource a number of functions. In the core banking solutions implemented in 1984-85 had necessitated use of software packages. The banks did not have the needed infrastructure and talented manpower to manage the core banking solutions. In November 1999, there were 59,338 excess employees in 12 nationalized banks and the government had come up with the voluntary retirement scheme for the public sector banks. The VRS was focused to relieve excess employees from the banking sector. In 2003 nearly one lakh bank employees were sent home on the golden hand shake scheme. The workforce was down sized by 11 percent. During 1990's information of communication technology began to be used very widely (CIT), Advanced Ledger Posting Machines (ALPMs) the total branch automation relate to mechanized check and by 1990's internet facilitated world wide web (www) was slowly taking over the bank working.

ROLE OF VENDORS IN CORE BANKING

In core banking the customers do not belong to a particular branch of the bank. The customers are permitted to operate their accounts by using software. The vendors provide 'Universal Banking Suit' which are known as the core banking solutions. These helps financial institution introducing new products and manage the existing products. The vendors provide integrated solutions to all aspects of core banking operations. The vendor operate on the entire range of banking products which includes saving, checking overdraft and deposit accounts. The vendors compliment all transactional services including remittance foreign exchange cards and trade finance. The vendors are providing accessibility through multiple channels including mobile banking and web. The vendors are able to integrate front middle and back office processes. They provide accurate timely and actionable information about customer relation. The vendors are able to provide single view between bank and customer and helping providing anytime, anywhere banking.

FUNCTIONS OF VENDORS IN BANKS

- Core banking: Core banking is the software used to support the most common banking transactions. Elements of core banking includes opening of new accounts, processing of cash withdrawals, processing payments, calculates interests, fixing criteria for minimum balance, number of withdrawals and maintaining records of all withdrawals.
- E-Banking (Mobile solutions, Alerts (messages,)Payments,): Electronic banking refers to use of computers to carry out banking transactions such as withdrawals through cash dispenses or transfer of fund of point of sale.

- Wholesale banking (Investment banking, Asset management, Cash management): Whole banking is the provision of the services by banks for wholesale purchase it refers to banking services between merchant bank and other financial solution. Wholesale banking deals with larger institutions. It includes loans, cash management services, equipment management, commercial real estate, trade finance, employer services.
- Retail banking (personal banking, Wealth management, Investment banking, Treasury): Retail banking refers to individual banking and for small business. Retail banking is also known as consumer banking services include saving account, debit card, credit card, mortgages, automobile financing, lines of credit, foreign currency, remittance, insurance, wealth management.
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ESSENTIALS OF CORE BANKING BACKGRPOUND

Core banking requires HR personnel who can store the data of the banks on a central data base. The core banking solutions can be accessed by not only the branches of a particular bank but also by all the banks having core banking solutions. This requires IT and ITES personnel for providing security for the data and to transfer it across the vendors. This will provide the basic infrastructure for internet banking. In a core banking environment vendors (IT, ITES personnel) are very important duties to function.

ADVANTAGES OF CORE BANKING SYSTEM

- CBS increases employee efficiency and reduces human error and fraud.
- It also facilitates the correction of errors.
- CBS adoption has given bank employees the opportunity to strengthen their relationships with customers.
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COMPUTERISATION IN PUBLIC SECTOR BANKS

(Rs. In millions)

Fully computerised branches	2008	2009	2010
Branches under core banking solutions	93.7	95.0	97.8
Branches already fully computerised banks	67.0	79.4	90.0
Partially computerised branches	6.3	5.0	2.2

(Source: Trend and Progress of Banking in in India, www.rbi.com)

The number of public sector bank branches in India with CBS implementation increased from 79.4% in March 2009 to 90% in March 2010.

RESEARCH METHODOLOGY

The study covers a period of four years (2011 to 2014). Data collection will be collected about vendors, the banking operations by vendors. It covers the major nationalized banks in India and major private sector banks in India. The study is not taking into account the foreign banks, co-operative banks, land development banks and those commercial banks which do not have core banking. Impact of vendors on the bank employees will be collected through secondary data.

OBJECTIVES OF THE STUDY

1. To analyze the impact of vendors on core banking with reference to cash withdrawals, processing payment, fixing criteria for minimum balance, maintaining records of withdrawals.
2. To analyze the impact of vendors on e-banking with reference to mobile solutions, alerts (messages), cash dispensers, transfer of funds and at point of sale.
3. To analyze the impact of vendors on wholesale banking with reference to cash management services, equipment management, trade finance and employee services
4. To analyze the impact of vendors on retail banking with reference to banking services, on individual savings account, debit card, credit card and lines of credit.

HYPOTHESIS OF THE STUDY

1. The vendors do not have impact on core banking with reference to cash withdrawals, processing payment, fixing criteria for minimum balance, maintaining records of withdrawals.
2. The vendors do not have impact on e-banking with reference to mobile solutions, alerts (messages), cash disbursements, transfer of funds and at point of sale.
3. The vendors do not have impact on wholesale banking with reference to cash management, cash management services, equipment management, trade finance and employee services.
4. The vendors do not have impact on retail banking with reference to banking services, on individual savings account, debit card, credit card and lines of credit.

TECHNOLOGICAL DEVELOPMENT IN INDIA

(Rs. In millions)

Items	2011	2012	2013	2014
Total number of credit cards (in million)	18.04	17.65	20	19
Total number of debit cards (in million)	228	278	331	394
Number of ATMs	74,505	95,686	114,014	160,055

(Source: Trend and Progress of Banking in India, www.rbi.com)

VENDOR COMPANIES IN INDIA

Most of the commercial banks have come under the core banking system. Only co-operative banks, land development banks and a few private banks have not come under the orbit of core banking. Under branch banking a customer is identified with a particular branch of the bank. All the transactions in saving account, current account, loan account and transfer of funds are done by the individual branch of the bank.

Core banking is based on internet. All the individual accounts are linked to the internet and so the customer is no more associated with a particular branch. The accounts can be operated by the customer without physical visit to the bank. This is facilitated by the vendors.

The core banking solutions largely depend on the role of the vendors. The vendors are usually from the IT and ITES. Some vendors are Indian origin (Tata consultancy Services Ltd, Infosys Ltd, Wipro Ltd, HCL Technologies, Tech Mahindra Ltd) while some vendors are global companies(Oracle Financial Services Software, Temenos, Misys, Fidelity National Information Services, Fiserv).

The vendors usually take away a lot of responsibility of the employees. They form the back office administration. They act as buffers between the customers and the banks. They dispense cash through ATMs and vendor machines. They accepted deposits. They are able scientifically calculate the credit worthiness of the customers. The vendors able to manage the big businesses by electronically organized payments and maintain details of payments. They help in personal banking and in administering small business. The presence of vendors has made banking operations simple and customer friendly. It has become safe and transactions are faster. The participation of vendors in banking in India is about twenty years old.

CONCLUSION

The bank vendors in India are of recent origin but they play a very important role in Indian money market. The presence of vendor can be felt in a public, private and commercial banks under core banking solutions. The latest trend is the vendors are becoming costly and commercial banks have to spend more and more money for the vendors. This compels the commercial banks to find out new methods of generating revenues. For example, charging for ATM withdrawals for more than specified number of time, higher charges for money transfer, putting up charges for payment of bills or a few examples in this regard. Hence the banks and vendors are trying to innovate new strategies for revenue generation.

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