International Journal of Applied Research 2017; 3(4): 401-402

ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 5.2
IJAR 2017; 3(4): 401-402
www.allresearchjournal.com
Received: 20-02-2017
Accepted: 21-03-2017

Dr. S Jeyalakshmi
Assistant Professor, Department of Corporate Secretaryship, PSG College of Arts and Science, Coimbatore, Tamil Nadu, India

Correspondence
Dr. S Jeyalakshmi
Assistant Professor, Department of Corporate Secretaryship, PSG College of Arts and Science, Coimbatore, Tamil Nadu, India

Transaction issue for banking sector

Dr. S Jeyalakshmi

Abstract
After the demonetization banking is essential for all the people, but still in banking have some issues in transactions. This article tries to find out and list out the Transaction issue in Banking Sector.

Keywords: Transaction, Bank, Issues, risk

Introduction

The 21st century will bring about an all-embracing convergence of computing, communications, information and knowledge. This will radically change the way we live, work, and think. The growth of high speed networks, coupled with the falling cost of computing power, is making possible applications undreamed of in the past. Voice, data, images, and video may now be transferred around the world in micro-seconds. This explosion of technology is changing the banking industry from paper and branch banks to' digitized and networked banking services. It has already changed the internal accounting and management systems of banks. It is now fundamentally changing the delivery systems banks use to interact with their customers. All over the world, banks are still struggling to find a technological solution to meet the challenges of a rapidly-changing environment. It is clear that this new technology is changing the banking industry forever. Banks with the ability to invest and integrate information technology will become dominate in the highly competitive global market. Bankers are convinced that investing in IT is critical. Its potential and consequences on the banking industry future is enormous.

Technology and banks transformation

Computers are getting more sophisticated. They have given banks a potential they could only dream about and have given bank customers high expectations. The changes that new technologies have brought to banking are enormous in their impact on officers, employees, and customers of banks. Advances in technology are allowing for delivery of banking products and services more conveniently and effectively than ever before - thus creating new bases of competition. Rapid access to critical information and the ability to act quickly and effectively will distinguish the successful banks of the future. The bank gains a vital competitive advantage by having a direct marketing and accountable customer service environment and new, streamlined business processes. Consistent management and decision support systems provide the bank that competitive edge to forge ahead in the banking marketplace.

Credit risk

According to the Bank for International Settlements (BIS), credit risk is defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk is most likely caused by loans, acceptances, interbank transactions, trade financing, foreign exchange transactions, financial futures, swaps, bonds, equities, options, and in the extension of commitments and guarantees, and the settlement of transactions. In simple words, if person A borrows loan from a bank and is not able to repay the loan because of inadequate income, loss in business, death, unwillingness or any other reasons, the bank faces credit risk. Similarly, if you do not pay your credit card bill, the bank faces a credit risk.

Hence, to minimize the credit risk on the bank's end, the rate of interest will be higher for borrowers if they are associated with high credit risk.

Factors like unsteady income, low credit score, employment type, collateral assets and others determine the credit risk associated with a borrower. As stated earlier, credit risk can be associated with interbank transactions, foreign transactions and other types of transactions happening outside the bank. If the transaction at one end is successful but unsuccessful at the other end, loss occurs. If the transaction at one end is settled but there are delays in settlement at the other end, there might be lost investment opportunities.

Market risk

McKinsey defines market risk as the risk of losses in the bank's trading book due to changes in equity prices, interest rates, credit spreads, foreign-exchange rates, commodity prices, and other indicators whose values are set in a public market. Bank for International Settlements (BIS) defines market risk as the risk of losses in on- or off-balance sheet positions that arise from movement in market prices. Market risk is prevalent mostly amongst banks who are into investment banking since they are active in capital markets.

Operational risk

According to the Bank for International Settlements (BIS), operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputation risk. Operational risk can widely occur in banks due to human errors or mistakes. Examples of operational risk may be incorrect information filled in during clearing a check or confidential information leaked due to system failure.

Security breaches in which data is compromised could be classified as an operational risk, and recent instances in this area have underlined the need for constant technology investments to mitigate the exposure to such attacks.

Liquidity risk

Investopedia defines liquidity risk as the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss. However if you find this definition complex, the term 'liquidity risk' speaks for itself. It is the risk that may disable a bank from carrying out day-to-day cash transactions.

Look at this risk like person A going to a bank to withdraw money. Imagine the bank saying that it doesn't have cash temporarily! That is the liquidity risk a bank has to save itself from. And this is not just a theoretical example. A small bank in Northern England and Ireland was taken over by the government because of its inability to repay the investors during the 2007-08 global crises.

Reputational risk

The Financial Times Lexicon defines reputation risk as the possible loss of the organisation's reputational capital. The Federal Reserve Board in the US defines reputational risk as the potential loss in reputational capital based on either real or perceived losses in reputational capital. Just like any other institution or brand, a bank faces reputational risk which may be triggered by bank's activities, rumors about the bank, willing or unconscious non-compliance with regulations, data manipulation, bad customer service, bad customer experience inside bank branches and decisions taken by banks during critical situations. Every step taken by a bank is judged by its customers, investors, opinion leaders and other stakeholders who mould a bank's brand image.

Business risk

In general, Investopedia defines business risk as the possibility that a company will have lower than anticipated profits, or that it will experience a loss rather than a profit. In the context of a bank, business risk is the risk associated with the failure of a bank's long term strategy, estimated forecasts of revenue and number of other things related to profitability. To be avoided, business risk demands flexibility and adaptability to market conditions. Long term strategies are good for banks but they should be subject to change. The entire banking industry is unpredictable. Long term strategies must have backup plans to avoid business risks. During the 2007-08 global crisis, many banks collapsed while many made way out it. The ones that collapsed didn't have a business risk management strategy.

Systemic risk

The global crisis of 2008 is the best example of a loss to all the financial institutions that occurred due to systemic risk. Systemic risk is the risk that doesn't affect a single bank or financial institution but it affects the whole industry. Systemic risks are associated with cascading failures where the failure of a big entity can cause the failure of all the others in the industry.

Moral hazard

Moral hazard is a risk that occurs when a big bank or large financial institution takes risks, knowing that someone else will have to face the burden of those risks. Economist Paul Krugman described moral hazard as "any situation in which one person makes the decision about how much risk to take, while someone else bears the cost if things go badly. Economist Mark Zandi of Moody's Analytics described moral hazard as a root cause of the subprime mortgage crisis of 2008-09.

Conclusion

Banks face a serious challenge. The basic structure of the bank is increasingly in conflict with the changing product, delivery, and service needs of the customers the future belongs to financial service provider's not traditional banks. The vast majority of large banks will create value networks. Doing so presents tremendous challenges. Banks will have to first develop a comprehensive distribution system that will enable customers to touch them at multiple points. Banks must also create performance measurement systems to assure the mix products and services they offer are beneficial to both the customer and the bank. They must determine whether to deploy new technologies themselves or with other service providers. Nevertheless, technology alone will not solve issues or create advantages. This technology needs to be integrated in an organization, with the change management issues linked to people resisting new concepts and ideas. It also needs to support a clearly defined and well communicated business strategy.

Reference

1. www.bankingtech.com
2. www.thebanker.com
3. www.banktech.com
4. Financial Services Banking & Insurance by C. Satyadevi.