

Impact of Usage and Investment in Banking Technology on its Profitability

TEJAL SHAH*
PULIPARAMBIL KUMARAN PRIYAN**

Abstract

Banking industry had witnessed a large investment in modern technology since the Banking liberalization. The use of technology like ATM, online banking, mobile payments, etc. improved the efficiency of banking operations improves efficiency at an added cost. During this period, the banking sector spent a higher amount on technology as compared to their financial service industry counterparts. For instance, the banking sector spent on an average 4.7 to 9.4 % of operating income on technology during last decade whereas Insurance Companies and Airline companies spent 3.3 % and 2.6% of operating income in the last decade. In this paper, we explored whether large IT budgets could generate higher revenue and improved operational efficiency or not. We examined the performance in terms of efficiency of selected Nationalized banks through Data Envelope Method (DEA). Results of the DEA model suggested an increasing trend inefficiency in most of the banks during the last decade.

JEL Code : G30;G31;G41

Keywords : Banking; IT budget; Profitability; Technology; India

I. Introduction

THE LIBERALIZATION AND globalization has brought many changes in business practices and economic systems in the world. The banking sector has undergone a huge transformation during this period. It embraced modern technology to improve the operational performance with speed and accuracy. (Yurcan, 2018). Usage of financial services backed by modern information technology are increasing these days across the globe. The reasons behind increasing Financial technology are perceived ease of use, cheaper and speedier technology. Also improved Internet Services, telecommunication

* Assistant Professor, Parul University, Parul Institute of Management and Research, Faculty of Management Studies, Post: Limbda, Tehsil: Waghodiya, Vadodara, Gujarat 391760, INDIA.

** Professor, Sardar Patel University, G. H. Patel Postgraduate Institute of Business Management, Near Kendriya Vidyalaya, University Staff Colony, Vallabh Vidyanagar, Anand, Gujarat 388120, INDIA.

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