

GOLDEN RESEARCH THOUGHTS

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Tukaram Shinde



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COMPARATIVE ANALYSIS OF IT GOVERNANCE IN BANKING SECTOR AT SATARA

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Abstract:

In the era of globalization Indian banking sector is depending upon the internet and computer technologies to operate their businesses. From last two decades banks are using information and communication technology for performing different business functions. Therefore, there is a need for a proper framework for maintaining Information technology related assets used in banks.

This paper highlights present status of Information technology implementation and IT governance practices used in banks of Satara city. The study also emphasizes problems encountered in Information technology governance and its impact on the performance of the banks. This paper helps banks for knowing weak areas in existing IT governance practices and adopting standard practices for effective and efficient utilities of IT resources.

KEYWORDS:

IT, ISSA, COBIT.

INTRODUCTION

The IT revolution had a great impact on the Indian banking system. The use of computers had led to introduction of online banking in India. The use of the computerization in banking sector of India has increased after the economic liberalization of 1991 as the country's banking sector has been exposed to the world's market. Today's business environment is very dynamic and undergoes rapid changes as a result of technological innovation, increased awareness and demands from customers. The banking industry of the 21st century operates in a complex and competitive environment characterized by these changing conditions and highly unpredictable economic climate. Information and Communication Technology (ICT) is at the centre of this global change curve. Because of these reasons banks have implemented IT technologies but their implementation is being done in a disorganized manner. Therefore implementation of IT is not as effective as it should be. To get real fruits of IT, proper IT governance is required. IT governance is essential to mitigate IT related risks and avoid IT project failures.

IT GOVERNANCE:

IT governance is senior management's ability to direct, measure and evaluate the use of an enterprise's IT resources in support of the achievement of the organization's strategic goals. The IT Governance Institute provides the definition as: "IT governance is the responsibility of the board of directors and executive management. It is an integral part of corporate governance and consists of the leadership, organizational structures and processes that ensure that the organization's IT sustains and

extends the organization's strategies and objectives." IT Governance focuses specifically on information technology systems, their performance and risk management. The primary goals of IT Governance are to assure that the investments in IT generate business value, and to mitigate the risks that are associated with IT. This can be done by implementing an organizational structure with well-defined roles for the responsibility of information, business processes, applications and IT infrastructure. Information system has become the heart of modern banking and information has become the most valuable asset to for banks and their stakeholders. IT governance is needed to ensure that the investments in IT generate value-reward and mitigate IT-associated risks, avoiding failure.

Commonly used information security governance frameworks are Federal Financial Institutions Examination Council (FFIEC), Control Objectives for Information and related Technology (COBIT), The International Organization for Standardization (ISO), PCI Data Security Standard (PCI DSS), The Corporate Governance Task Force (CGTF), Information Systems Security Association (ISSA), The Corporate Information Security Working Group (CISWG).

OBJECTIVES OF THE STUDY:

Major objectives of the study are as follows:

- 1) To study present status of IT governance in banks.
- 2) To identify the problems in IT governance.
- 3) To examine the impact of IT governance on performance of banks.

RESEARCH METHODOLOGY:

The study is inferential descriptive (diagnostic) in nature based on systematic collection, analysis and interpretation of the data related to present status IT governance, problems in IT governance and impact of IT governance on performance of banks. The necessary primary data is collected through structured schedule from Satara city of Maharashtra state. The necessary secondary data has been collected from sources like reference books, various publications, journals, articles and reports. There are 50 banks in Satara city, out of these 20 banks are selected by using stratified random sampling method. The primary data is collected from technical staff and branch managers.

REVIEW OF LITERATURE:

Mario Spremic and Hrvoje Spremic (2010) have conducted research under the title 'Measuring IT governance maturity – Evidences from using regulation framework in the republic Croatia'. Main objective of this paper is to stress the importance of evolving IT Governance activities. As a sample they have selected small banks. Main objective of this paper is to stress the importance of evolving IT governance activities. In this paper they investigated how regulatory framework can affect the level of IT Governance performance and measuring IT performance by using world-wide best IT maturity models.

In the article 'IT is Pivotal', Rangesh Nayar (2005) has explored that IT is central to banks. From author's point of view, because of IT new private and multi-national banks have been able to survive, succeed, and adapt in an increasingly competitive space. Author investigate that there is tremendous improvement has taken place in the Indian banking sector because of the IT revolution. With the help of computerization, the transaction takes place at a faster rate and the waiting time of a customer in a queue is getting minimized. E – Banking is emerging in the Indian banking sector. The banks provide the facility of internet banking, phone and mobile banking with the help of IT. The study concludes that banks are looking at newer ways to make a customer's banking experience more convenient, efficient, and effective. They are using new technology tools and techniques to identify customer needs and are offering tailor-made products to match them.

Peter Makau, global account manager and corporate bank country head (Sept. 2010) in paper titled 'IT Governance Framework Commercial Bank's Perspective' focused on IT governance from a commercial bank's perspective. The study has been focused on necessity for IT governance for commercial banks, IT governance issues for commercial banks, goals /Objectives for IT governance for commercial banks, IT governance critical success factors for commercial banks. Researcher has given necessity for IT governance for commercial banks. Study also includes some IT governance issues for commercial banks. Researcher also suggested important IT principles for commercial banks.

Kirk Tyrell (2009) has authored the paper entitled 'IT Governance within Financial Institutions'. This paper involves study of what does IT governance involve and why is IT governance important. In this

paper Tyrell has taken review of IT governance framework. Author also discussed components of IT governance cycle and different domains of IT governance as Strategic Alignment, Value Delivery, Performance Delivery, Risk Management, and Resource Management in the study. At the end author suggested that-

Each financial institution should have an IT Steering Committee with requisite board and management involvement

The board and management should ensure that policies and procedures are reviewed periodically for relevance

Financial institutions to adopt applicably industry best practices and rules to guide IT management.

FINDINGS:

Researcher has studied the concept of IT governance in banks. Researcher has derived findings and also has located some loopholes.

It has been observed that, most of the banks are using IT since last two decades performing different banking functions.

It has been observed that electronic banking system users still face the security risks with unauthorized access into their banking accounts.

It is found from discussions with banking staff, that there is resistance to change from bank employees because of fear of uncertainty and control orientation. Acceptance of technology is slowly increasing in but the utilization is not maximized.

Even the smaller IT problems take time as most of the branches do not have system specialist who can look after the system and other operational problems.

The risks arising out of outsourcing i.e. dependency on third party service providers for provision of certain services (say, for example, ATMs) does pose certain limitations on the range and level of services offered to the customers.

IT related frauds such as Phishing, database and server hacking, network attacks, Denial of Service attack, web page defacing, Cross Site scripting, card cloning, etc. that result in financial and reputational loss.

Shrinking the responsibility by the concerned authorities.

Technology investment is not aligned to its strategic business objectives.

It is observed that banks are not serious about reviewing IT assets performance.

It has been observed that implementation of IT in banks is not as effective as it should be.

The study reveals that private and nationalized banks are using IT for all functional activities whereas co-operative banks lacking in this regard. (Table No.1)

As compare to nationalized banks and private banks, some of the co-operative banks have IT strategy, IT budget and IT governance framework. (Table No. 2)

Majority of the banks having IT steering committee to assist the Executive Management in implementing IT strategy which includes prioritization of IT-enabled investment, reviewing the status of projects, IT service delivery and projects. (Table No.3)

Majority of banks are conducting system audit regularly. (Table No.4)

Lack of management involvement and inadequate training are major problems observed in banks. (Table No. 5)

Ineffective IT governance is likely to be a root cause of the negative results.

SUGGESTIONS:

Following are the suggestions for effective and efficient use of the IT resources. This would be also useful to plug the loopholes observed by researcher.

Banks should more focus on IT risk management.

Banks should conduct IT related trainings which helps staff for effective utilization of IT resources and improvement in services.

Bank management should focus on project ownership and alignment of IT strategy with bank strategy.

Co-operative banks should give more focus on customer satisfaction by adopting IT based services. (viz. mobile banking, internet banking etc.)

CONCLUSION:

Banks in Satara are using IT based systems from last two decades for performing different banking functions and focusing on only transaction processing whereas top management is unaware about real use of IT. Poor IT governance practices in co-operative banks leads to ineffective use of IT resources and it affects on customers services and bank performance. There is more scope for improving IT governance in cooperative banks in Satara City.

Annexure**Table 1: Status of Computerization**

Sr.No.	Particulars	Type of bank	Manual	Partially Computerized	Fully Computerized
1	Head Office	Nationalized	-	-	4 (100%)
		Co-operative	-	-	10 (100%)
		Private	-	-	6 (100%)
2	Regional offices	Nationalized	-	-	4 (100%)
		Co-operative	-	6 (60%)	4 (40%)
		Private	-	-	6 (100%)
3	Branches	Nationalized	-	-	4 (100%)
		Co-operative	-	7 (70%)	3 (30%)
		Private	-	-	6 (100%)

(Source: Primary Data)

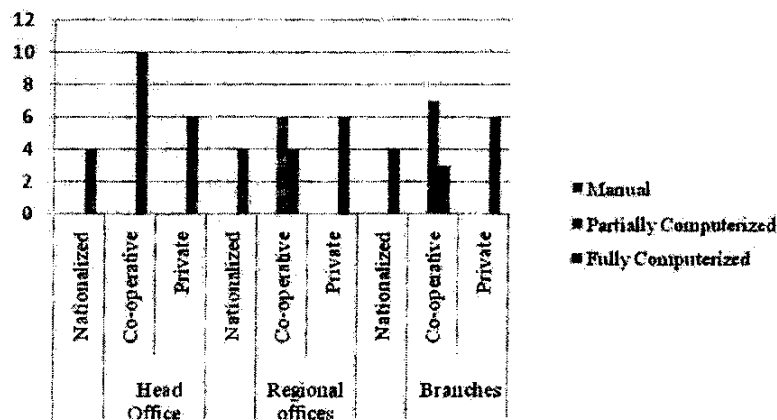
Graph 1: Status of Computerization



Table 2: Status of IT Strategy

Sr.No.	Particulars	Nationalized Banks		Co-operative Banks		Private Banks	
		Yes	No	Yes	No	Yes	No
1	IT Strategy	4 (100%)	- (0%)	4 (40%)	6 (60%)	6 (100%)	- (0%)
2	IT Budget	4 (100%)	- (0%)	3 (30%)	7 (70%)	6 (100%)	- (0%)
3	IT Governance Framework	4 (100%)	- (0%)	2 (20%)	8 (80%)	6 (100%)	- (0%)

(Source: Primary Data)

Graph 2: Status of IT Strategy

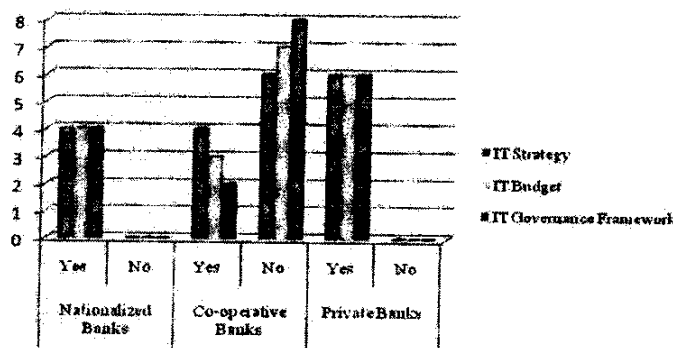


Table 3: IT Steering Committee

Sr.No.	Type of Bank	Yes	No
1	Nationalized Banks	4 (100%)	-
2	Co-operative Banks	4 (40%)	6 (60%)
3	Private Banks	6 (100%)	-
	Total -	14	6

(Source: Primary Data)

Graph 3: IT Steering Committee

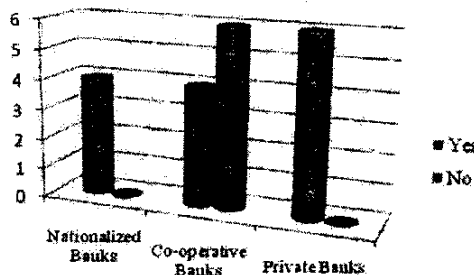


Table 4: System Audit

Sr.No.	Type of Bank	Yes	No
1	Nationalized Banks	4 (100%)	- (0%)
2	Co-operative Banks	8 (80%)	2 (20%)
3	Private Banks	6 (100%)	- (0%)
	Total -	18	2

(Source: Primary Data)

Graph 4: System Audit

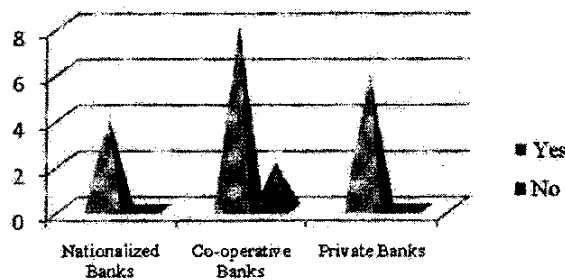


Table 5: Problems Faced by Banks while Governing IT

Sr.No.	Problems	Nationalized Banks		Private Banks		Co-operative Banks	
		Weighted Avg	Rank	Weighted Avg	Rank	Weighted Avg	Rank
1	Lack of involvement of top Mgt.	0.93	4	1.20	4	2.13	4
2	Poor Strategic Alignment	1.33	1	1.73	2	2.93	2
3	Lack of Project Ownership	1.20	2	1.80	1	3.00	1
4	Poor Risk management	1.20	2	1.73	2	2.93	2
5	Ineffective Resource Mgt.	1.13	3	1.66	3	2.93	2
6	Lack of training to staff of relevant technologies	1.20	2	1.73	2	2.86	3
7	Lack of IT resources	1.20	2	1.80	1	3.00	1

(Source: Primary Data)

COMPARATIVE ANALYSIS OF IT GOVERNANCE IN BANKING SECTOR AT SATARA



Graph 5: Problems Faced by Banks while Governing IT

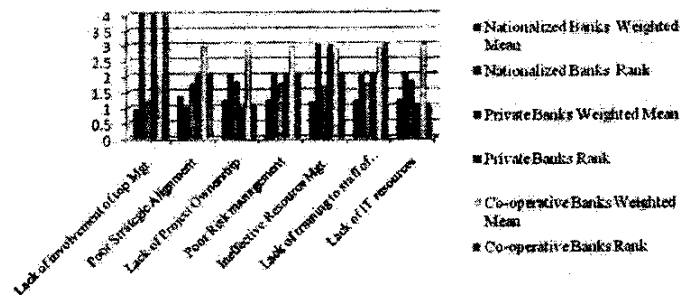
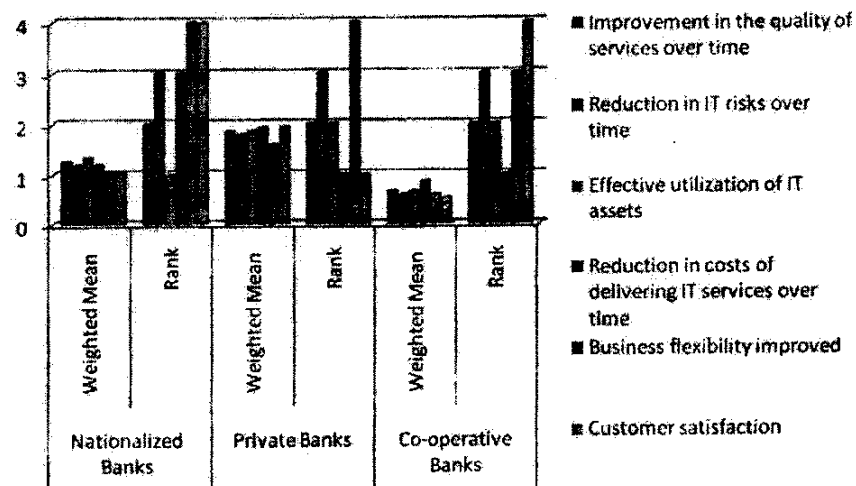


Table 6: Impact of IT Governance on Banks Performance

Sr.No.	Impacts	Nationalized Banks		Private Banks		Co-operative Banks	
		Weighted Avg	Rank	Weighted Avg	Rank	Weighted Avg	Rank
1	Improvement in the quality of services over time	1.26	2	1.86	2	0.66	2
2	Reduction in IT risks over time	1.20	3	1.80	3	0.60	3
3	Effective utilization of IT assets	1.33	1	1.86	2	0.66	2
4	Reduction in costs of delivering IT services over time	1.20	3	1.93	1	0.86	1
5	Business flexibility improved	1.06	4	1.60	4	0.60	3
6	Customer satisfaction	1.06	4	1.93	1	0.53	4

(Source: Primary Data)

Graph 6: Impact of IT Governance on Banks Performance





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