

DIGITAL BANKING – INDIAN PERSPECTIVE

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ABSTRACT

The financial sector in India is currently experiencing a golden period, and its key driver is the effort to move towards a less-cash economy. The Government of India recently announced its step to demonetization. This has created the greatest impetus for the transition from cash to digital transactions for the Indian economy. The present paper studies the digitalization of Indian Banking Industry. Further, the challenges posed by digitalization are also discussed and finally the post-demonetization scenario is also highlighted.

Keywords: Challenges, Demonetization, Digital Banking, Indian Banking.

I. INTRODUCTION

Technology and banking are inseparable now in India. The transformation from brick and mortar banking to technology driven banks has been fairly rapid during the last two decades. Economic liberalization and the integration with international best practices in banking and finance gave the much needed push to a largely stagnating computerization programme. It was also understood that if banking was to become efficient and penetrative the aid of technology was crucial. Challenges of diverse nature were faced to achieve the current status though it can safely be said that much is still to be done. Banking in India had fairly laid back approach prior to the emergence of the reform period during the mid 1990s. The present paper studies the digitalization of Indian Banking Industry.

II. DIGITAL BANKING IN INDIA

Digital Banking may be viewed as adoption of various existing and emerging technologies by the banks with associated changes in internal operations as well as external relationships for providing superior customer services and experiences effectively and efficiently. Today in a digital world, the milkman accepts wallet payment without a fuss, a man buys a geometry set worth about Rs 100 for his daughter using a credit card and the vegetable vendor uses QR code based "Scan & Pay" utility.

The new innovative digital technologies and futuristic thought processes have given birth to whole new businesses and social dimensions. Projects such as Make in India and Digital India are now the buzzwords to a bright and sustainable industrial and financial progress of our nation. As part of its impetus for DIGITAL TRANSFORMATION in India, Government also encourages technology adoption/upgradation while providing connectivity with high speed bandwidth to each and every region of india. This has exposed the full potential of the hitherto untapped market in India. Latest technology and service offerings in the new age Digital Payments space by the Banks, such as Unified Payments Infrastructure (UPI) including BHIM (Bharat Interface for

Money) which is a Mobile App developed by National Payments Corporation of India (NPCI), Bharat Bill Payment System (BPSS), mobile money, e-wallets, payment aggregation etc. have created a revolution by themselves.

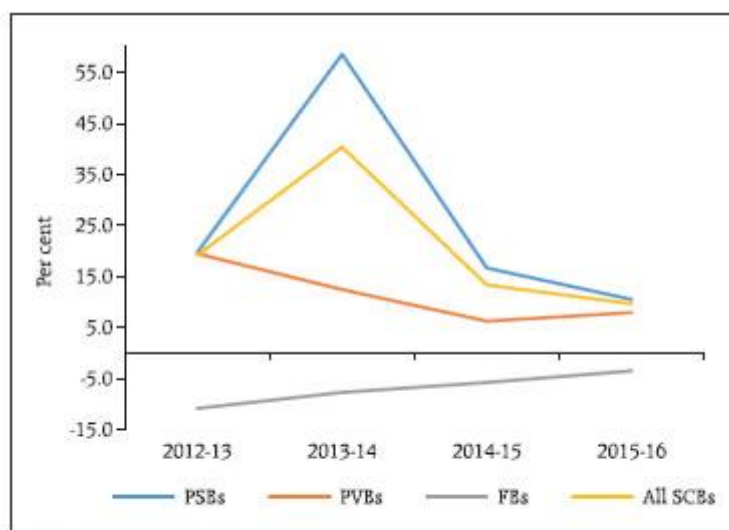
Currently, there are several technologies, infrastructure and processes available to enable banks to become super-efficient and dependable banks. Adaptation and implementation of highly capital intensive global technologies, infrastructure and processes are decisive in order to remain ahead of the curve. Transition and Interoperability related issues viz. from traditional banking to state of the art digital banking such as data integrity, authentication (including third party authentication) and trust factors in a digital banking environment are gaining importance. Digital banking provides mission critical solutions to bankers for their short term and long term business and technological requirements. Today, aspects such as enhanced customer satisfaction and value through unified customer experiences, faster output, infinite banking volumes, financial inclusion, operational efficiencies, scale of economy etc. are being sought after, by leveraging digital banking and mobile technologies. Becoming a digital bank can improve efficiency and provide a better customer experience.

The major technology growth of banking is the expansion of ATMs in india. The growth of ATMs are as below:

III. GROWTH OF ATMs IN INDIA

The geographic reach of ATMs increased further as the number of ATMs installed increased to around 0.2 million as at end March 2016, an increase of 9.7 per cent over the previous year. Public Sector Banks (PSBs) maintained more than a 70 per cent share in the total number of ATMs. Foreign Banks (FBs), however, continued to post a decline in the number of ATMs (Chart 1).

Chart 1



Note: Data excludes WLAs.

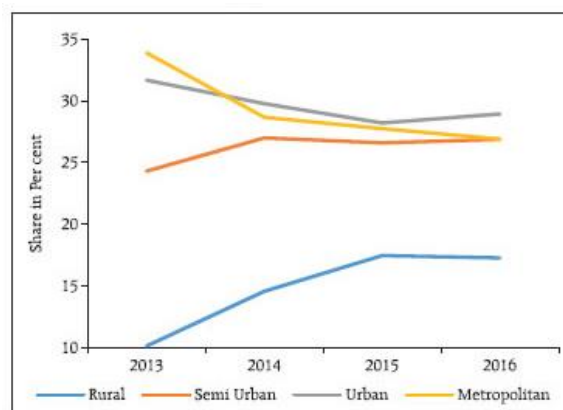
Source: RBI.

IV. DISTRIBUTION OF ATMs

Regional distribution of ATMs became more balanced with the share of metropolitan, urban and semi-urban centres in total installed ATMs varying between 26.0 per cent and 29.0 per cent. However, metropolitan centres

witnessed a marginal decline in the share of ATMs to 26.9 per cent in March 2016 from 27.7 per cent during the previous year. Semi-urban and urban centres registered a marginal increase in their share of ATMs (Chart 2).

Chart 2



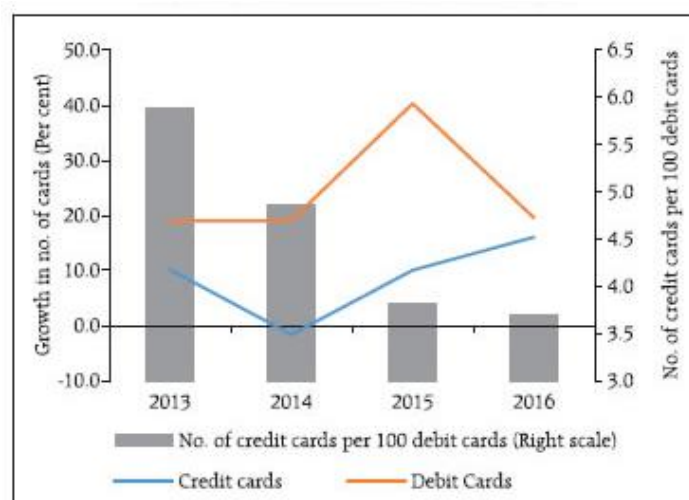
Note: Data excludes WLAs.

Source: RBI.

V. DEBIT AND CREDIT CARDS

Growth in the number of outstanding debit cards decelerated sharply to 19.6 per cent in 2015-16 from 40.3 per cent in the previous year. During 2014-15, the spurt in debit card growth was attributed to the Pradhan Mantri Jan Dhan Yojana (PMJDY) under which every account holder under the scheme was issued a RuPay debit card. As the growth in account opening under PMJDY decelerated, this resulted in a decline in the growth of debit card issuances. However, credit cards registered increased growth of 16.1 per cent during the year as against 10.1 per cent during 2014-15 (Chart 3). Bank group-wise, PSBs maintained a strong lead in issuance of debit cards with a share of 82.8 per cent. On the other hand, PVBs had a dominant position in credit card issuances with a share of 60.1 per cent (Chart 4).

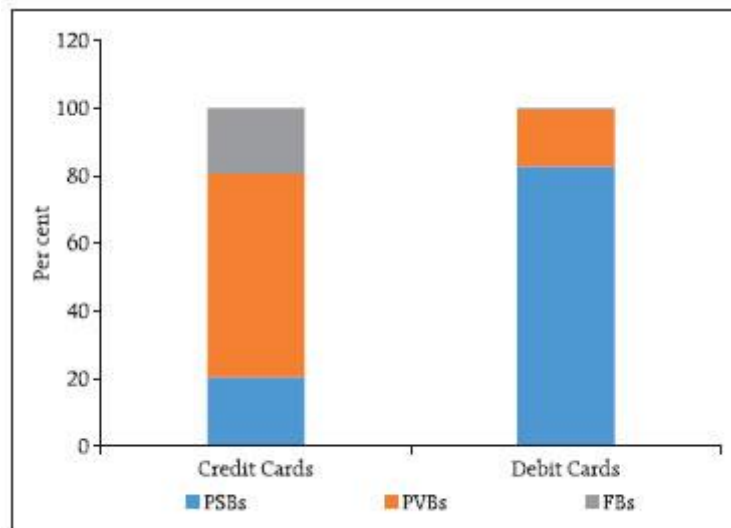
Chart 3



Note: Data excludes WLAs.

Source: RBI.

Chart 4



Source: RBI.

VI. DIGITAL BANKING – A BOON OR BANE

Going by the deep penetration within a relatively lesser turnaround time, state-of-the-art digital payment systems are now poised to take quantum leaps in this new era that is largely driven by the ubiquitous Internet. These disruptive dynamics and revenue models are literally the new game changers – causing tangible and tactical shifts across major verticals. E-commerce and M-commerce success is largely attributed to the phenomenal growth of various digital payment technologies such as card payments, electronic fund transfers, payment gateways, ePayments, smart cards, mobile money wallets etc. Pivotal to embracing such new age payment systems are the people, technologies, and processes that have together created vast, robust and dependable networks and seamless systems that guarantee humongous transactional volumes at breakneck speed, with dependable security and counterchecks built around them. All these and rest are taking India to the threshold of the big league and to make the country battle ready to compete with the most influential industrial and financial powers of global businesses. With digital banking and mobility, the need is no longer to “leap-frog” but to “deep-dive” into the future. Going digital and mobile for a Bank is no longer an option, it’s a simple bare necessity – to collaborate and flourish. Today’s challenging digital payments ecosystem has become a burgeoning marketplace.

Banks have already started evaluating the reduction in number and size of branches (both the number of units and the size of existing facilities). In addition, the investment in digital technology to replace more expensive human interactions is also being considered. This includes, but not limited to, tablets for universal bankers, automated teller machines and digital kiosks to facilitate account opening and customer inquiries. To be successful in a digital environment, banks focus on improving their digital maturity across various dimensions of customer service.

VII. CUSTOMERS' PERSPECTIVE

Banks are now increasingly worrying about their very bastions being co-shared by a string of new age players. And the end-customer is the single largest beneficiary – with a bouquet of services and service providers to choose from and along with hugely competitive pricing models. Banks will have to increase their operational efficiency and improve the customer experience by meeting the customers' expectations swiftly in order to keep their position in core markets.

The level of automation and digitalization of the account opening and on-boarding process has become very crucial. The most important aspect is to improve the ability for consumers to open any new account using digital channels and to efficiently onboard the new customer digitally. In this area, traditional banks still differ strikingly from the new market players who offer a convenient end to end online process. The ability to offer basic as well as value-added content and functionalities through digital channels is another important aspect. Value-added content and functionalities, in contrast, will contribute strongly towards a positive customer experience. Value-added functionalities include digital document safekeeping, access to financial news, digital investing, personalized digital alerts, digital savings tools, online chat, social media banking, e-lobbies etc. Simplicity of design, availability of contextual offers and ability to personalize the experience are definitely some of the key success factors. The differentiation between competitors with regard to design and ergonomics will decide the winner. In the coming days design will be a much bigger differentiator, with simplicity being the overarching goal. Elements allowing consumers to personalize their digital banking experience, such as contextual cross-selling, the ability to set up personalized digital alerts and even the ability for the customer to design their own digital banking app (font sizes, accessibility of certain functions, etc.) will gain prominence. It is the ability to leverage customer insight for improved information access. All new functionalities need to be part of the same digital banking application. Instead of having every piece of functionality, bank can dream up crammed into one big-honking mobile banking app. In the future, digital banking applications will be judged based on the fewer number of touches/clicks needed to get from one screen to another. Banks are forced set a goal to improve the individual customer experience.

The level of enhanced security available to protect identity and funds access is equally important. Identity protection and account security will continue to be the focus area as hacking incidents become more sophisticated and widespread. Banks have to implement biometric security, including fingerprint technology, facial recognition or voice recognition etc as part of person identification.

VIII. CHALLENGES OF DIGITALISATION

Secure banking based on technology and its ramifications including cyber-crimes in today's digital banking landscape has to be reviewed continuously. The dark side of being digital i.e. cyber security risks are to be taken care and risk mitigation measures need to be strengthened. Advanced fraud detection mechanisms and the possibility to leverage personalized security preferences and alerts will have to become more widespread. For any security enhancement to be accepted and efficient will require that the user experience is not impacted. Banks should consider investigating and implementing additional layers of security that will reduce the potential

for device and account level fraud. While ready to manage breaches, the goal should be to reduce the potential for losses and customer impact.

Use of advanced data analytics will help in combating several issues mentioned above. Adoption of technology and convincing the customers to opt for self-service modes of banking is the biggest challenge. In addition, consumers are becoming impatient with banks who offer irrelevant products/solutions without proper study of customer understanding. While new generation banks are performing better and better with contextual offers that are based on collected insights, consumers expect no less from traditional banks. Also the need to reduce costs and increase efficiency is assuming more significance than ever. In this regard, improving a bank's digital maturity ensures higher efficiency in its processes such as credit offering, improved interaction and customer experience. Renewed skills development of workforce and investments into training and manpower development is the need of the hour. Customer segmentation is another aspect which will not only facilitate ease of interaction, but also enable targeted product placement, thus increasing the likelihood of further acceptance. It is important to be conversant with the regulatory, security, technology and business challenges that await both – traditional banks as well as the latest entrants such as payment banks. Taking digital banking to the unbanked is another task, a social obligation. Achieving financial inclusion targets by innovative use of digital banking thereby promoting rural banking in a more comprehensive manner cannot be forgotten.

IX. POST DEMONETISATION STATUS

Recent demonetisation exercise of higher denomination notes by the government has really accelerated the transformation of digital banking in India. Growth in the number of digital transactions has been exponential since November 2016. Backed by Government thrust, people of India finally seem to have accepted/embraced digital economy. Demand for cash is diminishing slowly. New payment initiatives such as Aadhaar-linked cashless payment solution which enables a merchant to facilitate Aadhaar based payment for cashless purchases by customers called 'Aadhaar Pay' and 'Bharat QR', an integrated payment system using the customers' mobile phone to pay through debit or credit card by scanning a code at the merchant's place etc., have come to stay.

However with all these revolutionary new technologies, improvement in operational efficiencies in order to ultimately increase bottom lines and shareholder value will remain a challenge for all banks. Role of analytics and innovative revenue models need to be further fine-tuned. To reap maximum advantage in an increasingly digital society, it is imperative that banks must demonstrate superior performance in all spheres of customer service.

X. CONCLUSION

With initiatives like demonetisation, the Indian government has made it clear that India will be yanked away from a cash-based economy. GST rollout will give further impetus to the Indian economy. In 2017, banks will not only have to keep up with the growing expectations of a billion connected customers, but they'll also have to make sure that they are leagues ahead of the emerging competition.

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