

## Role of Digitization in Banking in India

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### Abstract

Digital banking is also called internet banking or online banking. When a bank provides its services online and customers can make transactions, submit requests, and handle other banking activities online, it is called digital banking. The first bank in India to offer internet banking was the ICICI bank in 1996. Since then a number of other banks have followed suit and today most of the banks provide online banking facilities.

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## I. INTRODUCTION

### Digital Banking in India

Banks in India as a whole were very reluctant to adopt the changes brought about by technological advancement. A number of factors brought about the mechanization and digitization in banking industry in India. The putting in place standard cheque encoders was the first step forward in digital transformation in banking. Magnetic Ink Character Recognition (MICR) helps in the sorting and processing of cheques with each bank branch having an MICR code. The next step was more of a necessity than an innovation. Banking is a repetitive job, and therefore a labor intensive one where the worker is prone to making mistakes. In order to minimize errors and speed up the process, banks began using computer technology with standalone personal computers and then set up their own local area networks (LAN). As the networks grew and banks began to connect together, Core Banking came into being. Centralized Online Real-time Exchange (CORE) banking thus allowed customers to perform financial transactions and access their account from any of the participating bank's branches. These services made it easier for customers to operate their accounts and slowly led to the coining of the phrase: 'Anytime, Anywhere Banking.' Then Automated Teller Machines (ATMs) arrived on the scene, and electronic fund transfers were made possible.

Online banking and Telebanking made their appearance in the 2000's and different modes of online fund transfers were instituted such as Real Time Gross Settlement (RTGS), Immediate Payment System (IMPS), National Electronics Fund Transfer (NEFT), and National Electronic Clearing Service (NECS). Recent years have seen the growth in mobile banking services and other innovative services online. The role of digitization of banking in India that began in the 1980's has certainly come a long way.

However there is still a long way to go in the digitization in banking industry and a number of hurdles to cross before we are able to ensure end to end digital banking in India as we will discuss in this article.

## **Benefits of Digital Banking**

### **Consider a few benefits of digital banking**

#### **Customer Service**

With internet freely available everywhere, all a customer needs to access his account is a device and internet connectivity. It saves him time and expense as he no longer has to travel to a bank to carry out transactions. He does not have to wait in unending queues only to find that he will have to go to a different counter to get his job done. Online services make it possible for him to sit in the comfort of his home or office, or in fact even in a vehicle while travelling, and carry out transactions without having to wait for anything.

#### **24×7 Availability**

The customer is able to check his bank records anytime he wishes and a number of banking services are available to him round the clock. Transferring money is easier, quicker, and safer.

#### **Time Constraint**

A number of services required waiting for considerable periods. Banks had boards put up at their branches specifying the time required for different services. Even simply cashing a cheque took time. But with digital banking it is instant, with no time constraints.

#### **Online Bill Payments**

This is a feature that saves customers a lot of time and expense. Customers do not have to carry cash and queue up to pay their utility bills or other bills.

#### **Lower Overheads**

Digital banking has drastically reduced the operating costs of banks. This has made it possible for banks to charge lower fees for services and also offer higher interest rates for deposits. Lower operating costs have meant more profits for the banks.

#### **Banking Benefits**

With the increased convenience of anytime, anywhere banking, the number of customers has increased for banks. Human error in calculations and recordkeeping is reduced, if not eliminated. With records of every transaction being maintained electronically, it is possible to generate reports and analyze data at any point, and for different purposes.

### **Importance of Digital Banking in India**

The benefits of digital banking stress its importance by themselves. However the socio-economic conditions we face add to the importance of digital banking in India. With a high rate of crime and corruption, digital banking is a safe way to handle financial transactions. The lax and cavalier attitude of public servants makes it a real hassle to sometimes even pay for utility bills and so the online bill payment feature of digital banking is really helpful. Many cities are known for pickpockets who eye bulged wallets, and hence the option of paying by credit or debit card, or through online wallets is a much safer option.

### **Digital Banking Trends in India**

Digital India in the banking sector has grown sharply in recent times. Some trends we see in digital banking in India are:

### **Increase in Customers**

The government's encouragement to use electronic wallets has contributed much to people adopting the use of technology in financial transactions. We see a rapid increase in the use of credit/debit cards as well as electronic wallets and the trend will continue.

### **Chat bots**

A number of banks have already employed chatbots in their customer care operations. We will see a steady increase in the number of chatbots employed as well as improvements in their speed of response, quality of interaction and the quality of services rendered.

### **Merge Physical and Digital Process**

Many banks today offer a mixed physical and digital process to their customers. The customers could walk into the bank and then use devices there to carry out their transactions. In the Indian context we will certainly see a steady increase in this kind of service especially in the rural areas.

### **Mobile Technology**

The proliferation of mobile phones and the easy and cheap availability of internet has meant that the banking sector had to provide digital services via mobile phones. A number of banks have developed apps to help customers handle banking transactions on their mobile phones. This trend will only continue. We can look forward to additional features and services being provided, and the user experience being more streamlined.

### **End to End Digital Marketing**

A number of customers are already using devices to handle their banking tasks. Banks have come to realize that digitization is the only way forward. Hence a number of banks have already started on the path of end to end digitization, in their effort to provide all kinds of services over the internet, resulting in paperless transactions.

### **Scope of Digital Banking in India**

There are a number of factors that affect the scope of digital banking in India. Some of them are enumerated below:

#### **Education**

A lack of knowledge about banking in itself is a hurdle for many. Also many parts of India still struggle with a very low literacy rate. The lack of knowledge about computers and the use of the internet is a challenge.

#### **Fear**

There are a number of unfounded fears individuals have about the use of the internet. Cases of fraud are often blown out of proportion, and this adds to the fear factor, resulting in a number of ill-informed customers being nervous to use digital banking.

#### **Training**

There is much resistance from within the banking industry itself. Employees are not trained in the use of innovative technology. They are unable to utilize different features of digital banking and hence are wary about its implementation.

This having been said, the challenges are steadily being overcome. Gen Y today, even in rural areas, has become computer literate and wants the conveniences and advantages of digital banking.

### **Future of Digital Banking in India**

What can we look forward to on the scene of digital marketing in India? Technologically India is a very progressive country. We do not only adopt new technology but are constantly innovating; we are at the cutting edge of technology. Therefore the future of digital banking in India is very bright and we can look forward to new innovations and services from the banking sector.

We have only discussed some aspects of digital banking in India, or digital India in the banking sector, and the future of digital banking in India. Digital banking should not be looked at just as a technological advancement. Neither is it a customer service initiative. It is a revolution in how the banking industry functions and the services it renders.

### **What is the Difference between Online and Digital Banking?**

For the most part, these two words are synonyms. But, we define online banking a bit more narrowly: online banking primarily focuses on remote deposits, money transfers, bill pay, and basic online management of accounts. Other synonyms for online banking include internet banking, virtual banking, and e-banking. So, online banking focuses on digitizing the “core” aspects of banking, but digital banking encompasses digitizing every program and activity undertaken by financial institutions and their customers.

### **Benefits to the Bank**

- Lower operating costs through;
  - the elimination of costly back-office processing operations,
  - fewer (or ideally no) errors,
  - smaller branch footprint (the typical branch can become a kiosk affair, providing technology interfaces for the client to use plus the ability to deal with banking specialists via a video link) – a minimum number of actual staff will be required.
  - concentrating banking/business specialists in a single centre, who are then available to clients via a technology link (either on their mobile, pc or via a kiosk branch).

Operating cost savings of between 20% to 40% could be achieved this way, according to industry experts. Cutting costs has the opposite effect on profits – they go up.

- Dumping legacy systems;
  - Make no mistake - one of the biggest drawbacks to going ‘Digital’ is this irrational clinging to legacy systems (developed in the 1960s and 1970s) that hold progress back. Banks plead the huge cost of making the change. They are wrong. The ultimate costs of not making the change are far greater.

### **Benefits to the Customer**

- Improved services and product offerings;
  - 24/7 bank services and availability through your mobile, pc or kiosk branch,
  - ‘smart banking’ applications that allow ALL transactions to be completed from the device of your choice, from beginning to end (with clear instructions and fail safe mechanisms),
  - Access to a FULL range of services (savings, investments, insurance, loans, mortgages, foreign currency, etc.),
  - new useful client services such as warnings, notifications, budgeting, expenditure analyses, savings programs, calculators (you name it – the range is endless),
  - Lower charges (and therefore cheaper banking),
  - Banking that meets the client’s needs (not the banks).

### **Major Storm Clouds on the Digital Banking Horizon**

From the outside, the banking industry looks as strong as it has since the financial crisis of 2008. Banks have benefited from a modest increase in interest rates, continued strong loan demand and relatively calm regulatory waters. Over the past several years, improved cost controls and the benefit of new technologies and automation have kept profitability strong. But the real challenge may be ahead for most organizations.

There has never been a greater need for traditional financial services organizations to become 'digital banks'. Until now, most banks and credit unions have simply put a nice veneer on legacy systems and products, ignoring many of the internal changes that are needed to compete effectively with smaller fintech and big tech organizations. Once considered competitors, fintech firms have become part of the mainstream banking system, allowing institutions to innovate beyond what was possible in the past.

Globally, the retail banking industry is being expected to deliver a seamless digital customer experience, as found in our 2019 Retail Banking Trends and Predictions report. Investments in digital technologies have increased to respond to consumers' constantly evolving demands, but the changes made by most institutions only scratches the surface of what is needed.

Consumers' experiences with firms like Amazon, Google, Apple and Facebook have upped the ante. Deloitte's recent global digital banking survey across 17 countries showed that banking consumers have a stronger emotional connection to these technology brands than to their banks. According to Deloitte, "Some of these companies' ability to blend experiences from the physical and digital worlds is considered a good model for banks."

We are even seeing some organizations building digital banking units outside of the traditional banking infrastructure.

### **Digital Transformation Starts from the Inside Out**

Digital transformation in financial services requires a departure from traditional operating models in order to develop hyper-personalized financial products and services. This movement calls for leveraging new technologies to create more frictionless ways of interacting and transacting. This transformation includes the use of the blockchain and the digitization of virtually all back-office processes, all within the constraints of an evolving regulatory environment.

Unfortunately, very few organizations have the modern applications or back office structure that can meet these business requirements. The legacy systems most organizations still use can't provide the technical agility that is needed. In fact, many organizations are building partial or sub-standard digital solutions rather than end-to-end solutions that benefit both the consumer and the financial institution.

Digital transformation requires a different business structure, new technologies as well as people who are trained and given the power to lead the digital transformation process. Instead of a 'project' approach, there needs to be an acceptance of the risk involved in a major transformation process, understanding the scope of the endeavor, sourcing opportunities, and operational modifications that will be needed.

The process of digital transformation is not easy. It requires a shift from legacy IT systems and traditional business models towards integrated, agile, customer-centric processes. Possibly more importantly, this transformation requires a cultural adjustment and mindset shift in application development and data flows. All of this with a focus on quality and compliance adherence, and security protocols to ensure privacy and data integrity.

According to Forrester, "It's hard to avoid back-end transformation: Without it, a bank can't offer true digital banking to its customers. However, to win acceptance from business leaders, back-end transformation needs to encompass more than a pure technology update."

## **A Need for Speed**

To remain competitive in the future, financial organizations will need a modern digital platform that can support current and future digital solutions. While there is a need for speed, digital transformation efforts will require careful planning and time. Resources must be invested in agile delivery while also supporting a restructured back office process that eliminates many of the steps that traditional banks are used to.

Most organizations will not initiate the required changes all at once, but will implement digital transformation projects incrementally. In the end, the result will be a vastly improved customer experience as opposed to just better reports. An emerging approach to managing transformation is to create a digital banking subsidiary with a separate business model, new business processes and new technology. The rationale is that the 'mother ship' is too encumbered with legacy systems, processes and people to succeed quickly.

## **Banking Industry Oversimplifying Digital Transformation**

According to the research associated with the 2019 Retail Banking Trends and Predictions report, only half of the organizations surveyed stated they have a strategy in place for digital transformation. Another 28% state that their organization has a strategy, but that the strategy has not been implemented.

## **Decoding the Digital Bank of the Future for India**

The Indian banking industry has become a poster child having taken rapid strides over the past decade or so. Once playing catch-up with leading global practices, the industry cut in half the number of unbanked individuals in India between 2011-2015, adding almost 300 million first time bank account holders. Cut to 2018, and the game has moved rapidly into the world of digital. The digital revolution has swept across industries, and the financial services space has seen the winds of change blow into it. Financial services companies are operating almost in a marketplace under siege, a new paradigm where the fundamental definition of how customers experience and interact with a bank is being challenged and redefined.

Customer expectations are being defined by their experiences elsewhere. From online e-commerce, to taxi-hailing services, to food delivery, to social networking, even to online dating, quick product and service delivery combined with seamless user experience is the new normal. Why should banking services, just as important as any of the other services listed above, be left behind? The answer may lie in the archaic business models and cost structures of traditional banks that are more suited to the old economy and the slow pace of the industry to embrace newer technologies and engagement modes.

Add to that the proliferation of bank accounts, higher spending power and favourable demographics, where over half the population is under the age of 30 and is technologically savvy and willing to experiment with new products & services that offer them more. Further, Digital India, which seeks to transform the country into a digitally empowered society, supports rapid digitization of India's financial services. Evidence of this is India Stack, an API platform initiative through which every Indian citizen is tagged with unique digital identifiers. Traditional banks operate on a brick and mortar model with multiple layers of hierarchy, huge staff and equipment costs, utilities and other costs which are passed on to the consumer to keep the former's profit margins intact. To justify these cost structures, banks either do not service sectors where margins are thin or where they can, price products at inflated costs. They are also paving the way to a whole new level of customised personal banking. Imagine a situation where every customer has a dedicated wealth manager cum banker at his disposal 24x7. Digital banks are making this a reality by turning the technology. Supported by Natural Language Processing skills and Artificial Intelligence (AI), chatbots and virtual agents are able to give Level 1 support at costs impossible for traditional banks to meet. And this is just the beginning. AI-based chatbots can be assigned to every single customer, customising engagement through its ability to continually exploit deeper insights, contextual understanding and real-time learning, while still operating at far lower costs.

No wonder then, that an IBM Institute for Business Value (IBV) survey of 2,000 banking leaders across 31 countries, including 150 from India, reveal that as many as 43% of respondents expect banking functions to become highly commoditized in the near future.

We are not far off from the day when a digital bank would not only offer payments through crypto currencies but also offer a range of cross-platform services to every single customer. Unlike traditional banks, digital banks are free from the legacies of the past and can design their operations, processes and strategies keeping the customer at the center.

## **II. CONCLUSION**

India has already seen the emergence of digital banks like 811 (from Kotak Mahindra) and Digi Bank (from DBS), which together today have a miniscule market share, but the adoption curve for such services is only steep at the beginning. We are not far from the day when consumer banking will be dominated by digital banks. To be sure, most traditional banks want to have these competencies and go digital, but their approach seems to be muddled. While some approach digital banking purely from a technology standpoint, others perceive it as a new way of engaging with customers or a new way of doing business.

Digital banking is about all this but also much more. It calls for a complete change of mindset among bankers, but the clock has already begun ticking for them. Fintech startups have already begun eating away at their markets from the bottom. They can either stand in the way of this digital revolution in financial services, or join in.

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