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Digitalization in banking sector as a roadway to success – An Indian perspective

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Abstract
The globe has now reached a stage when more technological innovations and developments are supporting modern culture and enabling people to purchase, sell, and even interact all in one location. The main driver of this modernization, which made room for digitalization, is advancements in technology and the internet. The global trend of new developing technologies, changes in client preferences, the world of open banking, and economic pressures have all had an impact on the banking business. These factors are also changing the overall banking structure. Financial technology (FinTech) is one of the most significant and quickly developing developments in the financial sector today. The establishment of value-oriented management in all fields of activity, as well as a significant shift from cost to value management mechanisms, is urgently required. In contrast, digital transformation is the process of moving away from paper-based banking and into a digital one, marking a radical change in the way financial institutions interact with their customers and gather information about their needs. Additionally, a thorough grasp of digital customer behavior, choices, preferences, goals, objectives, etc. is a prerequisite for an effective digital transformation. Major shifts from a product-centric to a customer-centric perspective in enterprises are also brought about by this transition. Recently, people have become completely reliant on technology and the internet to meet their daily demands. Accelerating the digitalization process in all areas and industries that apply digital concepts is the ability to get things done quickly. The current research study addresses the adoption of digital banking in the current environment as well as the current situation of the industry. Studying the current condition of online banking is crucial given that the idea of e-banking first emerged approximately three decades ago. The information was gathered from a variety of sources, including academic journals, GOI publications, numerous RBI bulletins, and other reliable websites and relevant sources. The research's findings imply that the overall picture of financial inclusion is highly susceptible to change as a result of digital banking. The unbanked economy can also be brought into the mainstream much more quickly thanks to the ease of using digital banking.

Keywords: Digital banking, digitalization, banking sector, technology, financial technology, internet banking

Introduction

Banks are more than just a small part of our lives; they play a big part in it. Banks constantly strive to implement the newest technologies to improve customer experience. The financial sector is undergoing significant changes that affect both traditional financial and credit institutions and are reflected in new formats as a result of significant digital changes. Only the power of the internet can truly constrain the scope of operational activities. The personalization of banking services, which boosts the speed at which they are received, as well as the expansion of the network of channels for their delivery, are the major trend areas that served as the foundation for the development of the newest banking technologies and services offered in digital format. It should be noted that having a secure way to provide and receive banking services in a digital format is likely necessary in light of the growing cyber threats. Digitalization of the banking sector for each individual bank has become a necessary evil as a means of overcoming antiquated methods and ineffectively managed customer relationships. The actions taken up until now, mainly in the FinTech sector, have been a combination of testing new digital offerings and imitating other market leaders. Technology has given rise to a new paradigm in banking called digital banking, but real transformation will necessitate extensive, deep changes as well as getting rid of outdated practices like urging customers to visit various branches and offering them complicated, impenetrable products. Deep cleaning of established procedures and Workable technologies within the banking industry will also be necessary. We are currently in a digital wonderland where the milkman is undoubtedly willing to accept wallet payments without a hitch, a man is busy purchasing a geometry set worth Rs. 100 using a credit card, and a vegetable vendor uses QR code scanning. Thus, the idea of Internet banking has brought about a revolution in banking and finance. When using internet banking, a customer interacts directly with the bank's website; as a result, high-quality online services are crucial on the part of the bank. As the term "Internet Banking" is used to describe banking operations carried out through a secure Internet application, these operations include features like bill payment, money transfers, account statement viewing, and loan and mortgage repayment. Customers are drawn to internet banking because of its 24/7 accessibility and simplicity of use. Due to their dissatisfaction with conventional procedures and practices, some customers have been known to switch to internet banking. Some people find the complete lack of human interaction appealing. Customers sometimes use online banking services for security reasons. Customers' confidence in banks' ability to keep transactions safe and secure is the main reason for this. The Internet Explorer user interface is used for the majority of online transactions. More than ten years have passed since the introduction of the Internet Explorer. The bank's centralized database is web-enabled and is available through the internet banking system.

Digitalization in the banking sector and its evolution

Banking transactions are simplified through the digitalization of traditional methods. In order to meet the needs of their digitalized customers, banks that have gone digital have tried to develop a wider range of computerized products and services. The transfer of funds between bank accounts has also been altered by the advent of digital banking. Customers have reaped the benefits of this as well, thanks to the increased speed and simplicity with which they can view account information, pay bills, and move funds between accounts. The end-user now leads a systematic financial life and embraces hassle-free online banking as a result of this. In the late 1980s, the Indian banking industry recognized the need for computerization to enhance customer service, bookkeeping, and MIS reporting. In the late 1980s, India underwent a number of financial reforms, which prompted the banking industry to improve customer service and computerize knowledge recording and accounting. The Federal Reserve Bank of India appointed Dr. C. Rangarajan to head a committee that studied the effects of computerization on the banking industry in 1988. This process of digitalization, along with the accompanying transformation of the Indian economy, picked up speed after the LPG strategy was implemented. When private and foreign banks first entered the market in 1991–1992, they brought with them the desire to digitize the economy and enhance the services provided to customers by general public sector banks, both of which helped speed up the process of computerization alongside the broader economic transformation in India. In India, electronic banking and internet banking were first implemented between 1996 and 1998. In response, the Indian government passed the Information Technology Act of 2000, which recognized e-commerce and other forms of electronic transaction. Since the introduction of ATMs, the banking industry in India has become increasingly digital. The banking industry regularly sees new developments, such as the introduction of new technologies like telebanking, electronic compensation service, electronic funds transfer, MICR, RTGS (Real-Time Gross Settlement), and point of sale terminals. E-banking has helped in a number of ways to generate income while also significantly reducing costs. These programs and platforms have made it so that customers can conduct transactions whenever and wherever they want without having to hold or carry cash with them.

Transformation of India's Financial System through Innovation in Technology

The amount of resources needed to support the growth process will increase as the economy expands. The loan to GDP ratio is expected to increase as the economy expands, and the Indian banking sector must keep up. To finance the economic growth envisioned in the 12th Five Year Plan, the banking sector must experience a dramatic expansion, from an anticipated Rs 115 trillion in 2012 to an estimated Rs 288 trillion by 2020. Therefore, it is necessary to reorient the banking structure so that it can maintain systemic stability and safety while also becoming more dynamic and adaptable. The banking structure can be greatly expanded in terms of size and capacity. As a result, the Reserve Bank issued a set of suggestions for the licensing of new banks in the private sector in February 2013. At the conclusion of the licensing procedure, "in-principle" approval was granted to two candidates who intended to launch new banks in the private sector within 18 months. Appropriately and start issuing licenses more frequently on a "tap" basis. The Reserve Bank would also pursue a policy of having multiple "differentiated" bank license categories, which would open the banking industry to more players, expand access to banking services, and stimulate competition. In order to issue licenses to small banks and payment banks, the Reserve Bank has started to develop the relevant regulations. The financial organization that has been reoriented may eventually contain four tiers. Three or four large Indian universal banks with significant international operations and foreign banks with significant presences in India could make up the first tier. Many powerful specialized financial institutions, such as Payment Banks, are likely to be among the many midsize financial institutions that make up the second tier of the banking industry. Some of the oldest private sector banks, rural regional banks, and urban cooperatives across multiple states could make up the third tier. The fourth tier may contain a large number of regional cooperative banks and privately-owned local banks.

Competition in digital banking

In their "Blue Ocean Strategy," W. Chan Kim and A. Renee Mauborgne demonstrated that businesses can prosper by building Blue Oceans of uncontested market space rather than by battling rivals. By generating new demand and eliminating the competition, these tactical choices add value for the business, its clients, and its staff. The "Blue Ocean Strategy" seeks to combine innovation with utility, pricing, and cost propositions in contrast to the Red Ocean Strategy, the traditional company strategy of out-competing the competitors. Similar to how the financial sector has been transformed, there are now many new, untapped markets. The rise in bank competition is a symptom of this evolution. In 1991, just before reforms began, public sector banks (PSBs) made about 90% of all banking assets; today, that number is closer to 72%, a yearly decline of about 1% The Reserve Bank released the framework for new universal banks and differentiated banks, such as small banks and payment banks, in November 2013, which is expected to further increase competition in the domestic banking sector. This was done concurrently with the development of the framework for new universal banks and differentiated banks, such as payment banks. Additionally, banks are becoming more at risk from non-bank rivals like NBFCs, MFIs, and tech companies. Peer-to-peer (P2P) lending, direct consumer lending, and social investment are examples of technologies that could lead to an increase in non-bank related finance activities in the future. Banks will need to take advantage of unexplored business prospects due to rising competition. Utilizing resources at the base of the pyramid would also be necessary in this situation. Both small clients and large commercial possibilities are crucial to their company's expansion. Banks would have to figure out how to best employ innovation and technology to reduce the cost of intermediation while preserving their bottom lines.

Current status of India in the digital space

Banks today work hard to provide their customers with efficient, accurate, and high-quality banking services. All Indian banks currently prioritize digitalization. The Indian government actively promotes online shopping. The

National Payments Corporation of India (NPCI) has taken two major steps toward reinvention in the Indian payment systems industry with the release of the United Payments Interface (UPI) and the Bharat Interface for Money (BHIM). These are all significant turning points in the digital transformation of the banking sector. The way that banking is done has changed significantly as a result of online banking. National Electronic Funds Transfer (NEFT) is the most widely used electronic payment method in India for transferring funds between bank branches (NEFT). There are currently 23 settlements, and groups of two run every half-hour. The primary use cases for Real-Time Gross Settlement are high-value transactions that can support "real-time" settlement (RTGS). Two lakh rupees is the lowest amount that can be transferred using RTGS. The sky's the limit. The National Payments Corporation of India provides its Immediate Payment Service (IMPS) as a 24/7/365 instant electronic payment transfer service (NPCI). The use of prepaid payment instruments (PPIs) for purchases and money transfers is on the rise. In order to make a monetary transaction, people use PPI Cards, which can be anything from a gift card to a corporate credit card to a travel card to a mobile wallet. The total value of PPI Card transactions increased dramatically from 2014–15 (Rs. 105 billion) and 2015–16 (Rs. 82 billion) to 2016–17 (Rs. 277 billion) and 2016–17 (Rs. 532 billion).

Review of Literature

Jarunee Wonglimpiyarat (2006) in their research article, the authors expressed the opinion that Thai banking's technological knowledge and prowess are relevant to digital issues. As demonstrated by the findings, the banking industry's technological transformation is evolutionary rather than revolutionary, with elements of both the mass automation and smart automation regimes being used.

Vadlamani Ravi (2007) [12] According to their research, banking technology is "the use of modern information and communication technologies in conjunction with computer science to improve the quality of service provided by financial institutions to their customers in a manner that is both secure and reliable and efficient and competitive."

Costas Lapavitsas and Paulo L. Dos Santos (2008) the authors of this study conclude that advances in technology have contributed to recent shifts in the structure and practice of banking, with mixed results. To begin, although the cost of exchanging currency has decreased, the cost of investing has increased, and a broader range of services is now required. In terms of efficiency, banks have not improved.

Bhattacharya, H (2015) the majority of the research article on "analyses contrast among online and digital banking" Despite the availability of both of these terms, the scope of web-based banking is narrower, encompassing primarily money transfers, bill payments, and fundamental account management. There are a few synonyms for "web-based banking," all of which refer to the same thing. Like other "core" aspects of banking, online banking's primary focus is on streamlining these fundamental activities. However, digital banking includes the digitization of all processes utilized by financial institutions and their customers.

George, A. and Kumar, G (2016) Young Indians today would rather use their smartphones to access banking services than stand in long lines, leading the study's authors to conclude that mobile phones are likely to play a leading role in India's digital development. A mobile view of 90% or more will likely promote financial inclusion. The current and expected connectivity for each and every smart phone in the country provides a disruptive and convenient channel, allowing banking and payment services can reach a wider audience.

Khandelwal, A.K. (2017) [5] they concluded that financial institutions play a crucial role in our lives. Numerous individuals perform a single monetary exchange every day. So as to improve the customer experience, banks continuously work to implement cutting-edge technology. Digitization is unquestionably not a decision for the banking sector given that every industry, including business, is becoming more digital.

Antony Rahul Golden S (2017) an overview of digitalization in the Indian banking sector is attempted to be studied in the research piece named "An overview of digitalization in Indian banking sector." Banks play a significant role in our lives in addition to being a part of them. Therefore, banks are always looking for new ways to implement technology in order to better serve their customers. The survey's findings indicated that the implementation of this digitalization is posing both opportunities and challenges for the Indian banking sector. The survey also found that in this increasingly digital world, traditional banking services and products have no chance of competing.

Hema Divya and Suma Vally (2018) [11] focus on the analysis of the degree of consumer adoption of digital payment systems in the article titled "A Study on Digital Payments in India with Perspective of Consumer's Adoption." From 183 unique individuals in Hyderabad, we were able to compile our primary data set. The Chi-Square test was used to examine the survey responses. The study found that a cashless society is closer to reality thanks to the increased efficiency of the banking sector brought about by the proliferation of digital payment systems.

Dr. Rajeshwari M. Shettar (2019) the present paper focused on the advantages of digital banking in their article titled "Digital Banking an Indian perspective," specifically how we can easily offer customers a higher interest rate on their deposits if the service fee in the bank is low as a result of digital banking. The bank's profit and liquidity can benefit from low operating costs. And this will help get the crisis under control, too. It is expected that the bank's operating costs will decrease as a result of the increased use of digital banking.

Role of digitalization in banking sector

Information technology has been used by banks to streamline customer service while taking into account customer conveniences. The Indian government has made significant investments in the industry and has quickly expanded banking facilities. After the digitalization, we also discovered results that were satisfactory. Customers can now use banking services from home. Our banking experience has been streamlined by ATMs, Internet banking, mobile banking, mobile wallets, tab banking, etc. Customers' time and money have been saved by this. The nation is moving toward a cashless system after going digital. Common people have a variety of doubts about whether online transactions will be convenient or cause them more trouble. By examining the loyalty benefits that can increase your savings, we can say that the government offers rebate programs, cash back offers, and reward points. India has a sizable population, so the government has created a variety of options for various groups. To use

digital platforms like BHIM UPI and E-Wallets and promote digital payments, a smart phone is required. We have a banking correspondent model that will cover rural areas to connect elderly and uneducated people. The government has already set up a committee to deal with issues of security in digital payment systems. The report claims that the RBI has targeted a quadrupling of digital transactions by 2021. There has been a 59.3% increase in non-online digital transactions, with 82.2% of that growth attributable to RTGS. By 2021, it is anticipated that UPI and other payment systems will have grown at a 100% average annual growth rate. The application of artificial intelligence has also given the field of financial technology a new direction. A recent report from the Reserve Bank of India states that between 2018 and 2019, the volume of digital transactions increased dramatically by 19.5% and 58.8%. Up until March 2019, there were 217.40 crore deposit accounts. In India, the use of debit and credit cards to make purchases has increased at a compound annual growth rate (CAGR) of 44% and 40%, respectively.

New trends of digitalization for banking services

The world is transitioning to the digital era right now. In this age of digitization, banks are not far behind. Through the adoption of new technology, they are also actively devitalizing themselves. As a result, competition within banks is also growing. Banks work to provide their services to customers who may be present anywhere at any time. Banks are implementing a new method of service delivery. They are spending money on video and text chat services. This is due to the higher customer satisfaction and improved business outcomes provided by chat services. Banks are promoting automation by using the issues that arise from algorithms, and all communication with them will be automated. Across India, there were more than 64.2 crore wireless broadband subscribers and 1.9 core wire line broadband subscribers as of the end of November 2019. Banks and financial institutions have begun to consider using blockchain technology to offer modern customers better services. Due to the fact that Santander Bank outperformed rivals by releasing One Pay FX on the blockchain. Swim is the first international money transfer service that One Pay FX merchants are promoting. One Pay FX offers a safe, quick, and easy way to transfer money between accounts using blockchain-based technology. Numerous opportunities are being presented by blockchain technology to enhance customer services. Online transactions have grown in India since the demonetization on November 8, 2016. Additionally, mobile banking has been used for the majority of online transactions. This demonstrates that the country's cashless trend is growing. Today, everyone from small business owners to major corporate executives conducts business online using services like Paytm, BharatPay, Google Play, etc.

Conclusion

In order to enhance customer service, banks have recently given information technology priority. Training has been heavily invested in, and the outcomes are promising. Customers have completed banking-related tasks through various digital channels, saving them time and money even in the challenging lockdown situation. During the lockdown, interest in digital banking has increased. Nevertheless, the banking industry faces some difficulties, including a lack of networking infrastructure, poverty, economic laggardship, and a sizable population. It is a huge success that now 70% of the PM Jandhan Yojana is being carried out correctly. In order for digital banking and financial literacy to be successful and financial inclusion to be achieved, banks must work together. In order to expand digital banking in rural areas and ensure the success of Digital India, it is essential that broadband connectivity in the nation be increased. Through digital banking, we can increase the number of customers as well as provide them with the best services possible, allowing us to both meet the objectives of financial inclusion and have a keen understanding of its profitability. Its objectives are to reduce corruption, make the economy cashless, and make all services easily accessible to the general public. There is still a long way to go, though, so it will take facing problems, coming up with solutions, and seizing opportunities. Nassim Nicholas Taleb's quotation, "Banking is a very treacherous business because you don't realize it's risky until it's too late," further illustrates this point. It is comparable to calm waters that produce powerful storms.

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