ROLE OF DIGITIZATION IN BANKING INDUSTRY IN INDIA

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ABSTRACT

Digitization has completed altered the way we used to interact with the bank and this sector will see massive innovation in the years to come. A vibrant digital future will need a strong underlying technology as its base. The right Omnichannel development platform with easy app management, in-built security and strong flexibility is imperative. If you want to build strong mobile banking solutions for constituents, a strong development platform and app development expertise is critical. This complex combination of technological and competitive changes can be only understood if the features of the new financial activities are properly addressed. Many of the innovations related to digitalisation and FinTech cannot be observed through the lens of the standard/traditional buyer-seller industrial organisation approach. The banking industry is that the largest banks have invested a lot in digital and into the future, while many smaller and regional banks have more difficulties to keep up as they are more dependent on technology vendors.

Key Words: Digitization has completed altered the way we used to interact with the bank

INTRODUCTION

Banks have benefitted in several ways by adopting newer technologies. E-banking has resulted in reducing costs drastically and has helped generate revenue through various channels. As per last available information, the cost of a bank transaction on Branch Banking is estimated
to be in a range of Rs.70 to Rs.75 while it is around Rs.15 to Rs.16 on ATM, Rs.2 or less on Online Banking and Rs.1 or less on Mobile Banking. The number of customer base has also increased because of the convenience in 'Anywhere Banking'. Digitization has reduced human error. It is possible to access and analyze the data anytime enabling a strong reporting system.

Digitization in Banking is one of the hottest topics for discussion especially if you are appearing for banking job interviews. Online banking, at least to some extent, has become the rule for many bank transactions. That’s not bad, the easier it is for customers to check their accounts, pay their bills and move money from one account to the other, the more likely they are to do these activities and maintain a more organized financial life.

HISTORY OF DIGITAL BANKING

The earliest forms of digital banking trace back to the advent of ATM machines and cards launched in the 1960s. As the internet emerged in the 1980s with early broadband, digital networks began to connect retailers with suppliers and consumers to develop needs for early online catalogues and inventory software systems.

By the 1990s the Internet emerged and online banking started becoming the norm. The improvement of broadband and ecommerce systems in the early 2000s led to what resembled the modern digital banking world today. The proliferation of smartphones through the next decade opened the door for transactions on the go beyond ATM machines. Over 60% of consumers now use their smartphones as the preferred method for digital banking.

The challenge for banks is now to facilitate demands that connect vendors with money through channels determined by the consumer. This dynamic shapes the basis of customer satisfaction, which can be nurtured with Customer Relationship Management (CRM) software. Therefore, CRM must be integrated into a digital banking system, since it provides means for banks to directly communicate with their customers.

There is a demand for end-to-end consistency and for services, optimized on convenience and user experience. The market provides cross platform front ends, enabling purchase decisions based on available technology such as mobile devices, with a desktop or Smart TV at home. In order for banks to meet consumer demands, they need to keep focusing on improving digital technology that provides agility, scalability and efficiency.
Objectives of the study

- To study the concept of digitalisation of rural banking industry.
- To identify the opportunities and challenges to use of digitalisation of banking system
- To evaluate the implications of using digitalisation banking industry.

Research methodology

The data used in the paper is mainly from the secondary sources. The data has been collected from secondary sources like research papers, books, articles, and economic survey reports.

DIGITALISATION OF RURAL BANKING INDUSTRY

Digitalization of rural banking is very helpful in financial inclusion and helps the economy to grow faster with the development of all other sectors. Some of the significances of digitalizing rural banking are

- **Increases efficiency**: Digitalization of banking increases the efficiency in banking sector and enables smoother transactions.
- **Fast and furious**: Digitalization will reduces the time of transaction and thereby encourages easy flow of funds compared to traditional banking.
- **Vast coverage**: Digitalization of banking covers large number of people and has wide coverage.
- **Improves the quality**: Digitalization will improve the quality of service of the banking sector compared to traditional banking.
- **Less human error**: Digitalization of banking maintains proper records of transactions and thereby reduces the human error.
- **Environment friendly**: As digitalization of banking saves paper and trees it is more of environment friendly
- **Increases Investment**: Digitalization of banking leads to quick and easy access to various banking services and thereby increases the investment activities in the country.
- **Less cost**: Digitalization of banking reduces the cost of printing currency notes as there is no usage of hard cash and less cost in maintaining records as its available online.
ISSUES AND CHALLENGES IN DIGITALIZATION OF RURAL BANKING

There are various issues and challenges in the implementation of digitalization to rural banking, they are:-

- **The literacy rate is low in rural India compared to urban India**: It is evident that usage of digital banking services needs the education. According to the Survey report 29% of rural population lack literacy, which is the greatest challenge in implementation of digitalization to rural banking. The details are part of a survey on 'Social Consumption: Education' during the National Sample Survey (NSS) 71st Round, January to June 2014, conducted by the National Sample Survey Office (NSSO) under the Ministry of Statistics and Programme Implementation.

- **Lack of infrastructural facilities**: Digitalization of rural banking requires the availability of infrastructural facilities, here we are considering mainly the Electricity and communication networks. Nearly 96% of villages in India are electrified but only 69% of homes have electricity connections, according to the World Bank report.

- **Less number of people using smart phones**: The number of people in rural areas using smart phones is very less which is the big hindrance in implementation of digitalization of rural banking.

- **Lack of banking habits among rural people**: Majority of the people in rural areas do not have access to banking because of the lack of banking awareness and lack of financial literacy.

- **Network issues in rural areas**: There is a problem of communication networks because of which there is lesser digital payments in rural areas which needs to be addressed.

- **Lack of financial literacy**: The financial literacy among rural people is very less, because of which people are not aware of different kinds of making payments.

- **Cash economy**: Rural India mainly depends on cash than digital cash to meet their daily need as the transaction happens mainly with help of cash or barter form.

- **Volume of transaction**: The volume of transaction in rural areas is very less because of lesser demand for the goods and low level of income.

- **Customer resistance to new technology**: The rural people do not change so easily in the case of usage of technology, as lack of awareness on usage of digital banking services.
Cost of financial services: the cost of providing financial service is too high in rural area because of lack of infrastructural facilities and low volume of transaction in rural area.

OPPORTUNITIES AND CHALLENGES

This new ecosystem offers great potential in terms of improved agility, quality, price, etc. in the relationship with customers. New customers want to be able to meet their financial needs at any time and on any device, mainly mobile. The use of big data has brought about a change in the way we understand customers and predict their behaviour. In addition, the new entrants, with their more agile and efficient structures, are increasing the competitiveness and productivity of the industry as a whole. In this scenario, the customer is clearly the main beneficiary.

Technological diffusion provides more possibilities to access financial services by, for example, using people’s mobile devices; this fits perfectly with the high level penetration of cell phones in emerging economies. In this case, digital transformation has the potential to help to overcome structural barriers to financial inclusion, such as geographical distance, bureaucratic processes and documentary requirements, and to provide time-efficient processes.

Digital transformation also brings a low-cost framework for financial institutions, facilitating the evaluation process for opening a new client account or processing a loan, reducing an important barrier to traditional banks’ offering financial services to low-income customers, as well as attracting non-financial institutions that provide some financial services, generating more competition and more value for the economy.

But this digital revolution also raises new challenges to the stability and the integrity of the financial system and the protection of consumers. In particular, there are various areas to which regulators and supervisors need to pay special attention:

The application of new technologies brings new risks related to the proper functioning of these technologies and their vulnerability to external attacks (cybersecurity).

In addition, other risks are being affected by the various applications:

New technologies for storing and processing data (such as cloud computing) and data analysis techniques pose new challenges for data protection, an increasingly significant area in consumer protection.
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✔ The advance of automation and artificial intelligence also raise certain ethical, political and legal dilemmas which have yet to be resolved. The large-scale replacement of the workforce that performs routine work will pose crucial challenges relating to social wellbeing, inequality and the stability of political systems. Moreover, it will be necessary to determine who is responsible for failings with serious consequences deriving from incorrect behaviour of a robotic system. It may even be that we have to limit robots’ autonomy, perhaps updating Asimov’s Three Laws of Robotics.

✔ The new electronic identification mechanisms are directly related to the prevention of money laundering and terrorist financing.

✔ Some possible applications of blockchain technology also involve risks for the prevention of money laundering and terrorist financing because of the anonymity they bestow.

✔ New business models (P2P lending for example) involve risks to consumer and investor protection and financial stability, which in many cases are not being addressed within the existing regulatory framework.

THE FUTURE OF BANKING SCENARIOS

The real question is not whether banking will change radically, which it undoubtedly will, but rather whether banks will still play a significant role in the new financial ecosystem. While acknowledging that a fertile imagination can produce innumerable scenarios, they could probably all be classified as variants of one or other of two broad and polar categories.

✔ The first scenario, resulting from passive strategies, is one in which banks evolve towards merely providing infrastructure, leaving the high added value services to other players. This would not be difficult to achieve, since it is a scenario of inertia: it would simply require banks and regulators to carry on doing things as they have been doing so far.

✔ The second scenario that can be discerned, resulting from proactive strategies, is one in which growing competition among the various players leads to a substantial transformation of the sector, in which a few of today’s banks survive, undergoing a complete metamorphosis. These new banks would be highly competitive, and in direct competition with companies such as the “fintechs” and other major players such as the “GAFA”.

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CONCLUSION

The digitalisation change has been around for decades but today, its impact and the speed of diffusion and change seem unprecedented. In line with other industries, this is transforming the competitive structure of the banking sector, with new entrants from the FinTech industry. It also implies a revolution for bank delivery channels and information processing systems, and change in the jobs and skills that are required in financial services. From an academic perspective, understanding the economics of banking currently requires a shift from the standard buyer-seller model of standard industrial organisation to models based on network externalities and multi-sided platforms with several related prices and cross-subsidies. Digitalisation and FinTech are also an opportunity to reduce marginal costs and increase productivity in financial services. However, there are also financial stability concerns associated with these processes as they imply a massive accumulation of intangible capital which is not always appropriately valued in capital markets, and they also blur the industry boundaries and create significant privacy, regulatory and law enforcement challenges. Giving its systemic nature, the new activities and players in the financial sector cannot be regulated (or unregulated) the same way that other industries are enforcing regulation (e.g. taxi cab industry, social media etc). One potential solution would be to regulate each innovation according to its specialisation. That is, regulating activities rather that the players.

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