

DIGITAL TRANSFORMATION: OPPORTUNITIES, CHALLENGES AND KEY AREAS FOR INDIAN BANKING SECTOR

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Abstract

In today's modern world digital technologies are evolving at an unprecedented rate all across the globe. India, too is witnessing radical growth in Information and Communication Technology (ICT) at a very rapid pace. In fact, many of the sectors from service industry are undergoing through significant digital transformation. As a result, Indian Banking sector is also undergoing huge transformations in order to bring automation, to increase operational efficiency, and to offer enhanced and better services to its customers. Continuous innovation in ICT in the banking domain has made Virtual Banking a reality in India. Establishment of Innovation Labs is facilitating the banks to explore various avenues in the banking arena like Biometrics, Artificial Intelligence, Robotics, Big Data, Cloud Computing, Data Analytics, Data Warehousing, Wearable Technology etc.

Digital Transformation is far beyond just moving from traditional banking to a digital world. It is a vital change in how banks and other financial institutions learn about, interact with and satisfy customers. An efficacious Digital Transformation begins with an understanding of digital customer behaviour, preferences, choices, likes, dislikes, stated as well as unstated needs, aspirations etc. And this transformation leads to the major changes in the banking and other organizations, from product-centric to customer-centric view.

This research paper is conceptual and descriptive in nature. Required data and information has been collected from various authentic and reliable sources. It necessarily discusses digitalization in banking, key areas, and opportunities as well as challenges in digital transformation in Indian banking sector.

Keywords: *Digital Banking, Digital Transformation, Opportunities, Challenges, Key Areas.*

I. INTRODUCTION

Indian banking system has been evolved over a longer period of time. Evolution of Indian banking may be traced through the four important phases such as Evolutionary Phase (Prior to 1947), Foundation Phase (1947-1969), Expansion Phase (1969-1990), and Consolidation and Liberalization, Automation, Modernization and Digitization Phase (1990 until today). Our country is emerging as a strong digital economy through digital transformation with penetration of Internet. Basically, digital transformation is the integration of digital technology into all areas of a business resulting in fundamental changes to how businesses operate and how they deliver value to customers. Indian banking sector has laid a strong foundation of modern banking services. There has been a paradigm shift in the banking sector. Banks, especially the Indian ones are at the absolute frontline making favourable digital impact on their customers, business models and employees. Since past few decades as digital banking has taken hold, most of the leading traditional banks have incorporated strong digital strategy.

Importantly, on 1st July, 2015 the Govt. of India took an initiative towards - Making India Digital. The campaign aimed to connect rural India with high speed Internet network and to improve the digital literacy. Indian economy is growing at the fast pace that requires the people to be financially literate to take judicious decisions. Even the Reserve Bank of India is also keeping constant eyes on the digital transformation taking place in the Indian banking sector and formulating the policies accordingly.

Well-known to all, banks today operate in a highly globalised, liberalized, privatized and a competitive environment. In order to survive in this environment banks have to use Information Technology (IT) wisely. In order to be successful banks must be use digital technology in a planned and systematic manner.

II. REVIEW OF LITERATURE

An extensive review of relevant literature has been carried out in order to get better insight into the subject or phenomena under consideration.

As per the PWC survey (2011) internet is most widely used mode of digital banking and mobile is still in infancy stage. In India 70% of customers use internet facility and about 55% uses mobile phones for buying financial products. McChesney Asia personnel financial service survey (2014) highlighted that smart phones and internet banking are the major source for digital banking. Their share in digital banking is 92 % and 61% in developed Asia and 26% and 28% respectively in emerging Asia in year 2014 as compared of 19% and 58% in developed Asia and 5 % and 10% respectively in emerging Asia. Panchal, C. S. (2018) in her research paper has discussed the history of digital banking along with different phases in it. She also pointed out the developments taken place in different phases in the banking systems and operation. She also highlighted the direction of digitization of banking organizations from traditional to modern techniques. Maldani, M. and others (2018) in their research paper covered the challenges before the banking organizations and also suggested for the strategies for facing these challenges. They also highlighted the advantages of digitization to the banks. Ansari, Nasir M. (2018) in his research study has discussed the current and enhanced processes with respect to digitization. He necessarily focused on the technologies in the process of digitization. He also tried to shown the path ahead with some meaningful conclusion. Jha, N. and others (2018) in their empirical study brought in the light the stages of evolution of Indian banking. They also covered the functions and duties of banks in the era of digitization along with the challenges, benefits and drawbacks of digitization. Mangalani, J. and Kaklotar, C. (2018) in their research paper mainly focused on digital banking strategy and omnichannel approach for digitization. They also emphasized on the

importance of Artificial Intelligence. Dube, N. (2018) in her research paper on digital transformation in banking discussed the advantages and disadvantages of digital transformation in banking. After careful analysis of the data collected she has suggested for some precautions to be taken by the customers in the era of digitization. Kasekar, S. (2018) in his research paper studied the impact of digitization. He also discussed the challenges and opportunities in the process digitization for banking organizations. He emphasized on the customer centric view to be adopted by the banks. Dewani, O. P. (2018) in his research paper covered the various issues in digital banking. He discussed the need for improvement in service quality and has offered for suggestions in quality management. He concluded with the discussion on the initiatives towards digital push. Phandharpatte, P. V. (2018) in her research paper discussed the challenges for Indian banks in digitization of banking systems and suggested for the model to cope up with the challenges. She also pointed out the features that a bank must endeavour to fulfill in the process of success towards digitization.

III. NEED FOR THE STUDY

Digital push is needed because India is one of the biggest markets and it also has to compete at the global level. Further, there will be a strong correlation between business performance and smarter technologies. Today's demand of banking is - any time anywhere banking. Technology has shrunk the globe these days. Now, the entire world is on our laptop, tab, and mobile handset. Innovation in customer service is becoming a huge priority for banks. The world today is changing rapidly and everything we know is getting digitized. The growing usage of technology has transformed the banking space in India from traditional brick and mortar institutions to niche tech-savvy new age banks supplemented by Tele banking, Internet banking, Online banking, Mobile banking etc. Banks are also under immense pressure to meet the increasingly complex demands of the real-time, digital customer. Customers want omnichannel service and access to information on their terms. It should be always remember that digital transformation is far beyond just moving from traditional banking to a digital world. Therefore, various opportunities and challenges of digitization need to be understood. The benefits and drawbacks of digitization require to be studied. Even changing customer expectations need to be considered. In fact, the banks as the prominent sector of service industry should deliberately look and attempt for digital transformation. And most importantly they should focus on to the key areas, which may help lead towards the way on successful digital transformation.

IV. OBJECTIVES OF THE STUDY

The study is undertaken with the intention -

- To understand the concept of digital banking.
- To know the emerging technologies in Indian banking sector.
- To describe the current status of digital banking in India.
- To discuss the opportunities and challenges in digital transformation.
- To highlight key areas in the process of digital transformation.

V. RESEARCH METHODOLOGY

The research work is conceptual and descriptive in nature, and is based on secondary data and information. It is collected from various reports, journals, news articles, various bank websites / portals, RBI portal and other Internet sources combined with the shared thoughts of researcher's, academic peers and experts in banking, insurance, and financial services.

VI. THE CURRENT SCENARIO

The history of digital banking or electronic banking goes into 1960s. Thereafter so many innovative developments have taken place. Digital or Electronic banking has emerged from such an innovative development. The early adopters in digital banking have already introduced unique banking offerings to reach out their customers-both for superior product delivery and internationally benchmarked services by using cutting edge innovative technologies. Services such as online banking, mobile banking along with online shopping and payment services have helped customer avail 24*7*365 banking. At the same time the banks are also under immense pressure to meet the increasingly complex demands of the real-time, digital customer. The Government of India is encouraging digitization and Reserve Bank of India is keeping constant eyes on the process of digitization.

'Make in India' and 'Digital India' projects are now buzzwords to a bright and sustainable industrial and financial progress of our nation. As part of its impetus for Digital Transformation in India, Govt. also encourages technologies adoption and up gradation while providing connectivity with high speed bandwidth to everywhere. Latest technology and service offerings in new age of digital payments space by the banks such as Unified Payments Infrastructure (UPI) including BHIM (Bharat Interface for Money), a mobile app developed by National Payments Corporation of India (NPCI), Bharat Bill Payment System (BPSS), mobile money, e-wallets etc.

VII. WHAT IS DIGITAL BANKING?

Digital banking is the move to online banking where banking services are delivered on the Internet. A Digital bank represents a virtual process that includes online banking and beyond. The term 'Digital Banking' means different things to different stakeholders in a service organization. For example, for customers, it can mean myriad new services and products resulting in a pleasurable buying/spending experience. Today, we find ourselves in a digital wonderland where the milk man accepts Wallet payment without a fuss, a man buys a geometry set worth about INR 100 for his daughter using credit/debit card and vegetable vender uses QR Code based - Scan and Pay utility. The new innovative digital technologies and futuristic thought processes have given impetus to whole new businesses and social dimensions.

To be more precise, *"Digital Banking - a new concept in the area of electronic banking, which aims to enrich standard online and mobile banking services by integrating digital technologies, for example, strategic analytics tools, social media interactions, innovative payment solutions, mobile technology and a focus on user experience."* In other words, *"Digital Banking is the application of technology to ensure seamless end-to-end (STP in the 'old' jargon) processing of banking transactions/operations; initiated by the client, ensuring maximum utility to the client in terms of availability, usefulness and cost; to the bank in terms of reduced operating costs, zero errors and enhanced services."*

VIII. OPPORTUNITIES IN DIGITAL TRANSFORMATION

In the way towards digitization or digital transformation the banks are made available with certain opportunities as follows.

- An untapped rural market provides an opportunity to penetrate more banking network in the unbanked areas.
- With digitization the banks can offer so many channels to access their banking and other services.
- Adoption of digital technology provides a competitive advantage to the banks over other players.
- Due to increasing Internet users and computer literacy banks can encash an opportunity to attract more Internet users to adopt Internet banking services.
- Digitization of banking systems and operations will not only increase productivity but also profitability of the banks.
- With digital technology the banks can bring about integrity, accuracy, security in their banking operations.

IX. CHALLENGES OF DIGITAL TRANSFORMATION

The challenge for banks is not becoming digital, but a wise adoption of digital technology. Certain challenges for the banks are as follows.

- Technology upgrades and handling adopted technology in an appropriate manner.
- Attaining perfection in various apps and Internet enabled technologies.
- Managing technological, legal, and other compliances in the era of a rapid change.
- Dealing with digital risk of new dimensions without hampering the operational performance.
- Monetizing the digital business in a planned and systematic manner.
- Creating an operating environment that drives productivity, speed, and innovation.
- Staying connected and relevant to consumers offering expected services and maximum satisfaction.
- Other issues for banks in the digital age stay the same as before i.e. security, fraud detection etc.

X. KEY AREAS, WHICH NEED ATTENTION

However, while technologies are getting more sophisticated and intelligent, so does malware. With numerous cyber attacks experienced by enterprises across multiple industries, and consequent losses, there is an acute need for banking organizations to become more intelligent, too. To keep up with the pace, banks will have to balance their digital transformations based on the following key areas.

- Decision making based on big data and advanced analytics.
- Connectivity with customers, colleagues, and suppliers.
- Automation of manual activity replacing labor with technology.
- Innovation of products, business models, and operating models.
- Use of modern technology like big data, cloud etc.

Through these key areas, banks may improve their corporate control, customer experience, product end-service innovation, distribution and marketing sales, digital fulfillment, and risk optimization. Further, some essential features that the banks must endeavor to fulfill in the process of digitization to make it a great success are as follows.

- Customer – focused strategy.
- Remove barriers between departments.
- Collaboration and competitiveness.

XI. CONCLUSIONS

Banking sector plays an important role in socio-economic development of the nation. Developed countries have diffused the digital banking network everywhere. The country like India has to go a long way to achieve its financial literacy and digital banking dreams. Our country has already started its movement towards digital transformation not only in banking sector, but in other sectors as well. As the nation welcomes innovations in ICT, banks need to equip themselves with the required infrastructure. Digitization has provided a good platform for making these services available to the masses. Most banks today want to become digital banking leaders. For this banks need to increase the focus on business outcomes, not digital activity. Customers want a seamless and simple transactional journey enabled by technology and various digital channels. Digital innovations in banking sector, emerging financial models, delivery systems and customer expectations are driving banks to re-evaluate how they deliver value to their digital customers. Anytime anywhere banking is now the norm and banks will have to offer innovative, robust, secure and flexible solutions for the empowered customer. It is expected that banks should improve the 4Cs - Cost, Convenience, Control and Customer experience. Digital Banking is the new paradigm that offers considerable benefits to banks in terms of increasing productivity and profitability. The Digital Transformation of banking represents an immense opportunity to create value for both bank and customers. Therefore, there is a need for the both to adapt, move, and involve in the process of digitization with planned, systematic, sincere and whole hearted efforts.

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