

ISSUES AND CHALLENGES IN DIGITAL BANKING- THE INDIAN SCENARIO

¹P.Rekha

¹Assistant Professor,

¹School of Management Studies,

¹Sreenidhi Institute of Science & Technology, Hyderabad, Telangana

Abstract : The pace of change in banking is incredible as the entire banking model is rapidly being reinvented. The transformation from traditional banking to digital banking is truly remarkable in India, and we are in the very early stages of transformation. Several research reports predict, digital banking is expected to redefine the banking landscape, as consumer preference shift towards digital delivery channels, driven by advancements in digital technologies, and also the growing adoption rates of personal/handheld devices and embedded internet in almost every aspect of life by **Gen-Y, Gen-U & Gen-S**. In this backdrop the article, concentrates primarily on the issues and challenges faced by banks in offering digital banking services in India.

The study also examined that a majority of banks have adopted digitalisation at various levels as it provides an opportunity for them to retain their existing, tech-savvy customers and to attract new customers. The paper also makes mention about some of the digital services being offered by some of the banks in India and also comments on their approaches. It finally concludes by proposing strategies to be followed by bankers to face the challenges in the digital era.

Key Words: Digital Banking, Technology Risk Management, Business Model

I. INTRODUCTION

Growth in mobile technologies and internet has transformed many industries and economies. The market forces and competitive landscape has completely changed many sectors. For example, Amazon has driven most big brick and motor book sellers out of business. Technological changes and innovations in products and service delivery has become a lethal threat to most business models today and the banking industry is not an exception.

The banking industry in India has been dominated by a handful of large banks both from public and private sectors which have pan India presence. In today's world the entire banking model is being reinvented. Banking is not going to be difficult as we need not be at a certain place during certain hours on certain days. It is easier, today, than ever to execute some or all of our banking services from the wireless devices we carry wherever we are and whatever time we want as smart phone's and the wireless industry are transforming the banking industry. The pace of change in banking and finance are incredible. As several research reports predict, digital banking is expected to redefine the banking landscape, as consumer preference shift towards digital delivery channels, driven by advancements in digital technologies, and also the growing adoption rates of personal/handheld devices by Gen-Y, Gen-U & Gen-S.

With all this change it is important for banks to understand that carrying out the business in traditional ways would not work for them. Therefore they need to be a part of this new wave created by the wireless industry and the explosion of smartphones in the digital era. Some of these changes have already been introduced and many more are yet to come in the coming years.

Literature Review

According to Chris Skinner, the author of the book **Digital Bank**, a digital bank is a bank built explicitly for the digital age. It is not a branch based bank or an internet bank or a mobile bank, but a completely focused bank from the ground up. In an interview to Finovate, he opines, a digital bank is the one which proactively and predictively serves the customers, so that the customer always feels that the bank knows them intimately and is one step ahead of the game. Most banks were not built this way. "In fact most assume the branch is the foundation and internet and mobile are channels to add to that structure. The digital bank thinks the other way round. It looks at the ability to interact and communicate nonstop everywhere and even with what you wear, and works out how that differentiates their services and gives them more customer depth of remote relationship". He further says, "The difference is that the digital bank does not think about devices, but about the capability to have the internet embedded in everything i.e., walls, windows, chairs, ceiling, headscarves, handbags, jumpers, jam jars. You name it you can digitally interact with anything today".

"Digital banking has become an irresistible business trend" (Mc Kinsey). According to the global consultancy firm, "The digital transformation of retail banking has so far taken place in two stages – but the most existing and groundbreaking one is just starting".

The majority of UK bank customers surveyed by Accenture found their experience "easy" (70%) and effective (63%), fewer than half found them "enjoyable" (47%).

Statement of Objectives

- To study the market potentials so as to assess the future prospects of digital banking without any pre-set target results.
- To explore suggestive strategies to redefine banking in India in the digital era.

Research Methodology

The methodology uses both primary and secondary data for understanding digital banking in the context of Indian Banking system. The primary data contains the findings from an interview with a bank executive. The secondary data is collected from various research reports related to digital banking, websites of some Indian banks and RBI reports.

The article has been organized in the following manner. **Review of Literature** establishes the theoretical context for this study by way of discussion on the research results conducted by various authors predicting digital banking to redefine the banking landscape. The section on **Indian Banking Scenario** introduces the context of the study with the description of the details of some of the digital banking services being offered by some banks in India and also discusses some issues and challenges faced in the Indian context. The last section titled **Conclusions** uses data derived from the previous section to conclude, banking is no longer going to be the same again.

India towards Digital Services

The Government of India announced 11 technology initiatives including the use data analytics to nab tax evaders. Digital Literacy mission will cover six crore rural households. It is planned to connect 550 farmer markets in the country through the use of technology. India ranks 125th in the world for wired broadband penetration, with 1.2 per 100 inhabitants having access while the global average is 9.4. In wireless broadband, India is ranked 113th, with a penetration of 3.2 per 100 inhabitants. Indian government hopes to achieve growth on multiple fronts with the Digital India Programme focusing on broadband highways, universal access to mobile connectivity etc. An investment of USD 18.4 billion is allocated to provide internet connectivity. The provision of these services is expected to increase the volumes in electronic retail payments and facilitate inter operability across banks in India.

Indian Banking Scenario

Compared to many developed nations, the size of Indian banking is gigantic. Indian banking industry has been progressing rapidly over the last four decades and today it is one of the vibrant and strongest banking system in the world with over 3.22 lakh delivery channels (branches over 1.26 lakh and 1.99 lakh ATM's) catering to 500 million client base with divergent backgrounds. In the year 2014-15, 8,227 branches and 21,197 ATM's were added to the network across the banking sector (Data as of June 30, 2015 / RBI reports).

Further, with 13 new entities, including Reliance Industries, the Aditya Birla Group, Airtel, Vodafone and Department of Posts, getting the licenses to set up as payment banks and the apex bank sets up efforts to issue more bank licenses and banking penetration, the competition is only going to intensify further in India's red hot banking sector.

Today, India is the second largest populous country in the globe with a population of over 1.25 billion. As per census 2011, major chunk of population (63.60%) is under the age of 15-64 years age group which has a direct bearing on the economic development of the nation and banking industry as well. The Gen-Y (young) segment is likely to be mobile with least brand loyalty and more service sensitive. They are highly educated and skilled while they coolly move to other banks, if their demands are not met. They live in the moment and want to spend for the moment therefore saving is not a high priority for them. They extensively use technology embedded applications and they have a strong trust in their social network. Normally they wish to complete their banking transactions without paying visit to bank branches. This segment prefers to maintain a certain lifestyle, laying a strong foundation for digital banking in catering to their customized needs.

The RBI is also open to applicants transacting primarily using the internet. The payment bank is expected to leverage technology to offer low cost banking solutions. Such a bank should ensure that it has all enabling systems in place including business partners, third party service providers and risk management systems and controls to enable offering transactional services on the internet. While offering such services the payment bank will be required to comply with the RBI instructions on information security, electronic banking, cyber frauds and technology risk management.

Banks in India have redefined the banking landscape by making great technological advancement in implementation of digital banking and this platform has enabled the banks to provide Triple "A" services viz., Any Time, Any Branch and Any Where to the customers. While a handful of banks in India have been racing ahead to digitize their operations and transform their services, to mention a few:-

In July 2014, **State Bank of India**, the country's largest lender, took a major step towards becoming a digital bank with launch of its digital banking branches named **SBIINTOUCH**. These branches offer services such as instant account opening with personalized debit cards, instant loan approval for car and home, remote expert advisors available via video links, along with interactive walls and table displays. These branches are a first step in the journey to offering full digital services across the nation. It is becoming increasingly popular to track account balances.

In February 2015, **ICICI Bank**, India's largest private sector bank, launched '**Pockets**', India's first digital bank on mobile phone for those who want everything instantly, on the go. Targeted at primarily the youth, anyone can download this digital **Wallet** if they are not customers of the bank. Once downloaded you can fund it from any bank account in the country and start transacting immediately. This wallet uses virtual **VISA Card** that enables to transact on any website or mobile application in India. The

wallet allows users to instantly send money to any e-mail id , mobile number , friends on Face book, split and share expenses with friends, order food etc., . The universal wallet and the savings account are the first two products to be launched as a part of the 'Pockets' digital bank.

HDFC Bank, India's second largest private sector bank, is currently working on a contactless payment service based on the technology called '**Near Feed Communication**', which is being currently used by '**Apple Pay**'- Apple Inc's mobile payment solution. NFC technology can prove to potentially disruptive to the current physical debit and credit system as smart phone penetration jumps along with rise in rollout of 4G services.

YES BANK offers payment solutions using digital technologies, powered by API Banking & Unified Payment interface for B2B & B2C. It is at the forefront of adoption of the next-generation payments system **Unified Payments Interface (UPI)**, a simplified and robust payments system being operated by National Payments Corporation of India (NPCI). Leveraging capabilities of the UPI platform like Phone-linked payments, any-bank account debit and 1-click 2 factor authentication to deliver a superior user experience to customers state-of-the-art internet banking facilities to bank in a secure and convenient way. With **YES TAG** customers can do banking transactions on 5 messaging apps - Twitter, Facebook Messenger, We Chat, Telegram and Skype. Customers can check their balance, mini statement, fixed deposit details, cheque status and much more through messaging apps.

Indus Ind Bank, inaugurated India's first digital branch at Gurgaon - **Indus Ind Cyber City Rapid Metro Station**. The branch's one of the unique features is its interactive video branch machine which allows customers to connect with the remote Teller over a Real-Time video call and perform regular banking transactions. Besides, the digital branch lobby also has a smart tablet with ipads on which customers can do a host of banking and non banking transactions. The bank branch has no staff, the fully automated security systems at the entrance has a built-in sensor recognises their bank's customer and allows to entre inside. Once inside, the customer has various options like video conferencing facility to interact with the bank's wealth advisor who takes the customer through a small presentation on the newly launched portfolio management services of the bank.

Challenges before Indian Banks

The old branch banking model, comprising bricks and mortar banking with digital channels for transactions, will no longer work. As a result banks will have to redefine all their distribution channels. Banks networks will be radically transformed into sales and advice outlets. Banks will manage these different channels so that service from the customer's perspective is seamless and 'end-to-end' and from its own perspective it captures business that is currently untapped. However there are many challenges that lie before Indian banks in their endeavour to usher into the digital banking era.

- Firstly it involves building world-class digital infrastructure, thereby bringing tech-tonic shift in existing approaches and strategies. There is a need to focus on competitive and cost effective technology.
- Secondly all these changes come with huge capital investments. Capital here just does not limit to financial investments banks also need to look into their investments in human resources as there is a role reversal in delivering banking services. The workforce needs to be technologically oriented with expertise in data handling. There could be a shift in bankers role as the number of customers approaching at the banker's desk is expected to come down.
- Thirdly existing banks are held back by their legacy systems because they have customers to consider in any migration into a digital operation. But the transforming banks also do not have a clear-cut route to success, with different options being trialled. For example Indus Ind Bank has adopted a policy of operating digital branches at rail stations, while ICICI Bank is offering its services even to its non bank customers there by targeting a new customer base.
 - Fourthly new entrants to the market are working around the edges to find the space for innovation to increase their customer base. This could be a threat for existing banks as some of the biggest technology and social brands are likely to join the race. With 13 new entities, getting the licenses to set up as payment banks and the apex bank setting up efforts to issue more bank licenses and banking penetration, the competition is only going to intensify further in India's red hot banking sector.
 - Fifthly non-bank competition is presenting a challenge for banks as some of the biggest technology and social brands are likely to join the race. Pay Pal remains one of the popular ways for consumers to pay for goods online and also in foreign exchange transactions it has succeed in undercutting the existing banks with a destroyer pricing strategy.

Further to sum up creating new source of value, to changing customers behaviour and needs with ever changing technologies in a diverse market like India is a very big challenge ahead in the banking industry.

Conclusion

The ubiquitous presence of Smartphone's increased market penetration of tablets and cheaper band width and internet, confirms that customers have stopped viewing digital banking as the future, and are increasingly comfortable accepting it as a part of their day to lives. The future certainly looks bright for digital banking. There is a huge market in India which is still untapped and if customer's acceptance continues to be strong India is a perfect platform for innovation in digital banking to bloom.

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