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Digital Banking in India – A Study on Trends and Opportunities

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Abstract:
In the present scenario, Digital Banking is one of the most significant things in the banking industry in India. It smoothen the day-to-day financial transactions of customers from entire the world. Digital Banking made the customers migrate from traditional banking to online banking. Digital bankingis nothing but delivering banking services on the internet to its customers and permitted to do their transactions 24/7. All the Banks adopted Digital banking to provide the best customer service to their customers globally. This paper covers the trends and challenges in digital banking in India. The data for this paper has been extracted from the various RBI bulletins, research articles, GOI publications, etc. The present study purely depends on secondary data.

Keywords: Digital Banking, e-Trends, Challenges, Opportunities.

1.1. INTRODUCTION:

In India, the modern banking era was started in the mid of 18th century, the first bank was theBank of Hindustan established in 1770 and it was liquidated during the period 1829-32. Later General Bank of India was established in 1789 but it failed in 1791.Later on, many banks were established inIndia and started their operations. In 1935, The Reserve Bank of India was established, under the Reserve Bankof India Act,1934. Itactsas India's CentralBankandregulatorybodytoregulate the Indianbanking system. At present in India, there are 12 public sector Banks, 21 Private Banks, 12 Small Finance Banks, 5 Scheduled Payments Banks, 43 Regional Rural Banks,with 21,856 branches across 26 states and 3 UTs, and 45 Foreign Banks. All these banks areregulated,bythe Reserve Bank of India (RBI) under theprovision of thebankingregulationact, 1949.

Digital banking refers to the use of online and electronic platforms to conduct various banking activities and services, such as checking account balances, transferring funds, paying bills, applying for loans, and more. It eliminates the need for physical visits to brick-and-mortar bank branches by allowing customers to access and manage their financial accounts through websites, mobile apps, and other digital channels. This approach offers greater convenience and accessibility, making banking services available 24/7 from anywhere with an internet connection.

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Digital banking, a transformative trend in the financial industry, has revolutionized the way individuals and businesses interact with their finances. Digital banking, also known as online banking or internet banking, represents a fundamental shift from traditional in-person banking services to a digital landscape where financial transactions and services are conducted electronically.

At its core, digital banking leverages digital channels, such as websites, mobile apps and even social media platforms, to provide customers with convenient and efficient access to a wide range of financial services. This includes activities like checking account balances, transferring funds between accounts, paying bills, applying for loans and even investing. What distinguishes digital banking is the ability to perform these tasks from the comfort of one's home, office, or on-the-go, using connected devices like smartphones, tablets and computers.

1.2. HISTORY OF DIGITAL BANKING

In India, in the late 1980s, the necessityof computerization in the banking sector was identified so RBI set up a committee in this regard headed by Dr. C. Rangarajan in 1988. Before migrating to Digital Banking, banks used information technology with the introduction of standalone personal computers and shifted to Local Area Network connectivity, and later banks adopted a core banking system. Then it changed from branch banking to e-banking. After this adoption banks raise comfort to customers to make their transactions from anywhere and anytime banking. Thereafter computerization kicked up to open the economy in the early 90s. Due to the rise in competition from private and foreign banks, manycommercial banks adopted digital customer service to stay with the competition. Before the 1990s there were no Digital Banking operations were undertaken by the banks, in the late 1990s for the first time, ICICI bank introduced the Digital Banking operations to its customers so that they can handle all the banking transactions from their place of convenience.

Banks began to offer basic online services like balance inquiries and fund transfers. However, the real transformation began in the 2010s with the growth of smartphones and internet accessibility.Around 2010, mobile banking apps started emerging, allowing customers to perform various banking tasks through their smartphones. The launch of the Unified Payments Interface (UPI) in 2016 was a significant milestone. UPI revolutionized digital payments by enabling instant and seamless fund transfers between bank accounts through mobile apps.

The Indian government's push towards a digital economy, especially with initiatives like "Digital India" and "Jan DhanYojana," further accelerated the adoption of digital banking. In 2016, the demonetization drive acted as a catalyst, prompting many Indians to adopt digital payment methods.

By the mid-2010s, several fintech startups entered the scene, offering innovative solutions for payments, lending, wealth management, and more. These startups capitalized on India's large unbanked and underbanked population, creating financial inclusion through digital means.

The pandemic in 2020 further highlighted the importance of digital banking as people turned to online transactions due to lockdowns and safety concerns. Traditional banks also embraced the digital transformation, enhancing their online and mobile banking services.

The Reserve Bank of India (RBI) played a crucial role in shaping the digital banking landscape. It introduced regulations and guidelines to ensure the security of digital transactions and customer data. The

RBI's "Know Your Customer" (KYC) norms were adapted to digital platforms, allowing for remote customer verification through Aadhaar or other approved methods.

The need for digital banking in India was realized in the early 2000s when the country's economy started growing rapidly, and there was an increasing demand for more convenient and accessible banking services. With advancements in technology and the internet becoming more widespread, banks and financial institutions recognized the opportunity to offer online banking solutions to cater to the evolving needs of their customers. This led to the development and adoption of digital banking services in India.

Digital Banking moved to online banking to deliver the banking services over the internet. It provides the customers fastest and most convenient banking services. It involves web-based services and high levels of process automation and may include Application Programming Interface (APIs) to enable thecross-institutional components to deliver banking products and provide transactions. It allows the users to access financial information through Mobiles, Desktops, and ATM services.

1.3. REVIEW OF LITERATURE:

Shahabas Ahmed C.B & Sreeju V. V (2020) in their research article titled "The Digital Banking InIndia-Recent Trends, Opportunities And Challenges" author tried to explain the development of digital banking in India by rapidly growing due to the penetration of smartphones and the internet. These numerous opportunities are directed toward the cashless, paperless, less-cash society. The competition was raised due to transformation boosting among the public sector, private sector, and foreign banks. They examined the recent trends in digital banking services, opportunities, benefits, hurdles, and challenges in digital banking.

R. Deepak Sounder & K. Saranya (2020) in their study titled "A Study on Digital Banking in India" explained the significant development of the banking industry in the present era. Digital banking made a number of major concernsand challengesfor marketsin the online bankingsector. The bankingsector has shifted from traditional to digital banking gradually and remains on going to deliver better services to its customers in the long run. It allows the users to access the financial data through ATMs, Mobile Phones, and Desktops.

Chauhan S. Akhtar, A and Gupta A(2022) the study attemps to show how digital banking affects & how consumer rate their service experience and create a framework for identifiying the key elements of digital banking that have the biggest effects on banks financial success. With a focus on digital banking the structured review of the literature identifies 88 articles that were published between 2001 and 2021 and examines various facets of digital banking &how they effect financial performance. It is guided by the preffered reporting items for systematic reviews and meta analyses framework.

Pinki& Aryan (2022) in their research paper titled " Digital Banking in India: An overview " tries to explain how digital banking became a part of life. What are the factors that pushed digital banking in India? What are products and services that digital banking offers to its customers?How digital banking plays an important role in our country's economy. What are the barriers to digital banking and how it will be overcome? Some are getting advantages from digital banking and some people are still away from it due to poor literacy and financial positions.

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1.4. OBJECTIVESOFTHESTUDY:

To know the concept of digital banking in India, the researcher has framed following objectives.

1. To study the Evolution of digital banking in India.
2. To study the digital banking trends in India.
3. To evaluate the opportunities indigital banking system in India.

1.5. RESEARCH METHODOLOGY:

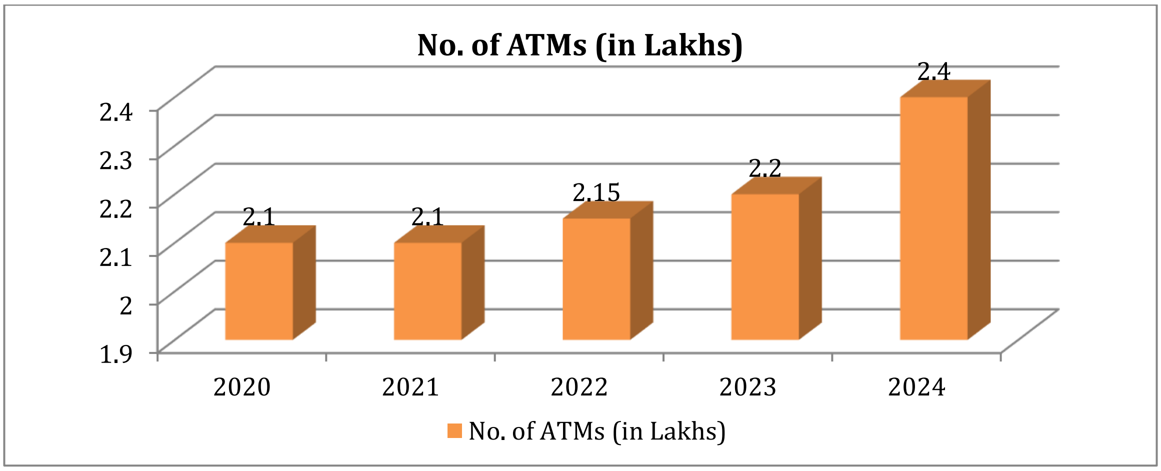
The present studyis purelybased on secondarydata. In this studythe data is collected for a period of 5 Years (2020-2024). The information for this study is collected from the external sources like RBI Bulletins, Research articles on digital banking, Books, and websites.

1.6. TRENDS IN DIGITAL BANKING IN INDIA

There cent innovation services emerged from the digital banking is described as follows:

a. Automated Teller Machine (ATM):

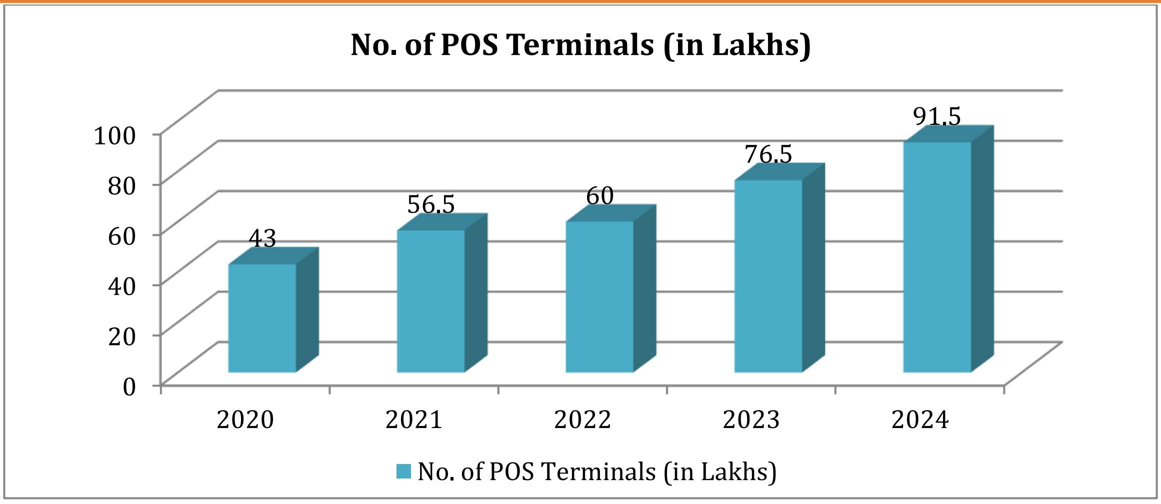
In India, First ATM was setup by HSBC in Mumbai in 1987. Later on the Indian Bank's Association setup first network shared ATMs called Swadhan in India. An Automated Teller Machine (ATM) is an electronic device which allows the customers of financial institutions to perform their financial transactions byinserting Authorised Debit or Credit cards. The ATMs will enable the customers to access the bankingservices such as cash withdrawals, deposits, bill payments, balanceenquiryand card to card transfer or card to account transfers etc.



Source: Reserve Bank of India-Statistical Tables (Provisional Data)

b. Point of Sales (POS) Terminal:

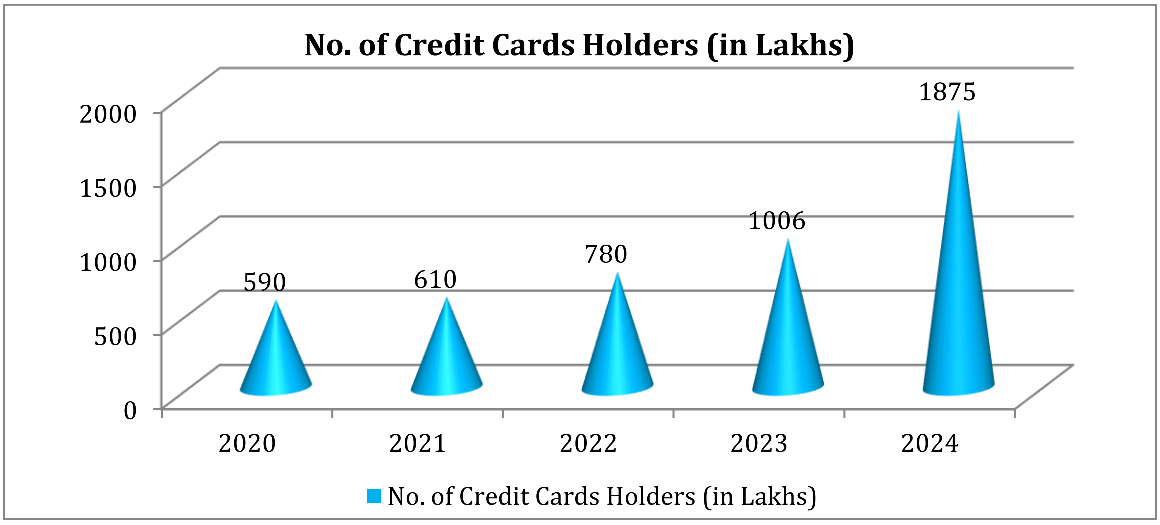
A Point of Sale (POS) terminal is a hardware device that is used for processing card payments in retail outlets. POS terminals are made with software to read the magnetic strips on credit and debit cardsof the customer's data for successful transactions. The POS terminals will record the sale transaction and print the receipt and also send the transaction details to the buyer as a text SMS and via email. These terminals can be either purchased by own or can be leased, depending upon how they prefer to manage cash sales.



Source: Reserve Bank of India-Statistical Tables (Provisional Data)

c. Debit and Credit Cards:

By using debit and credit cards we can able to make cashless transactions anywhere and anytime. The Debitcardswillbe directlylinkedwiththe customer'sbankaccounttomake thepaymentsifthere isa sufficient amount to make the transaction. But for credit cards the credit limit is fixed by the bank basedonthe earningcapacityofthe customer.The customercanmake thetransactionsuptothe sanctionedlimit by paying nominal interest for such utilized amount.



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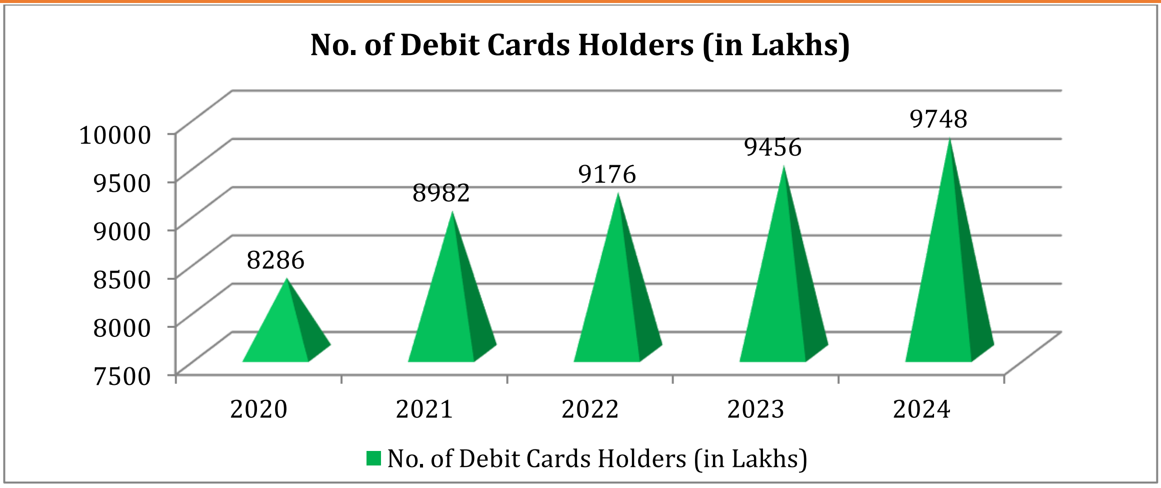
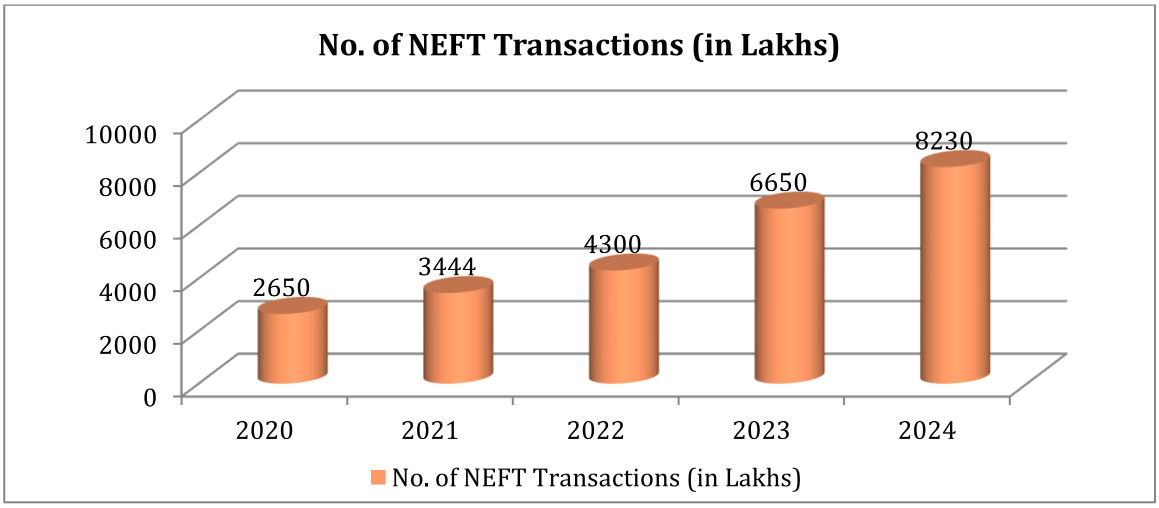


Source: www.statista.com

d. National Electronic Fund Transfer (NEFT):

National Electronic Fund Transfer (NEFT) is a centralized payment system maintained by the Reserve Bank of India (RBI). RBI will settle the NEFT transaction requests in batches once in half an hour. NEFT works 24/7, 365 days. There is no specific minimum and maximum limit set byRBI to make transactions. NEFT system is used by banks to transfer the money from onebank to another bank (i.e.,two different banks). For this network, the bank branch has to be NEFT enabled. It requires the Indian Financial System Code (IFSC) to make the transaction using NEFT.For every bank branch, the IFSCcode is unique.



Source: Reserve Bank of India-Statistical Tables (Provisional Data)

e. Real-Time Gross Settlements (RTGS):

Real-Time Gross Settlement (RTGS) is a continuous process for the settlement of funds on an individual order basis. RTGS is a safe and secure transaction method, it settles the payment in real-time without any time delay. For RTGS transactions, the minimum amount is 2, 00,000/- and there is no maximum limit specified by RBI. To make this transaction Cheque leaf is mandatory.

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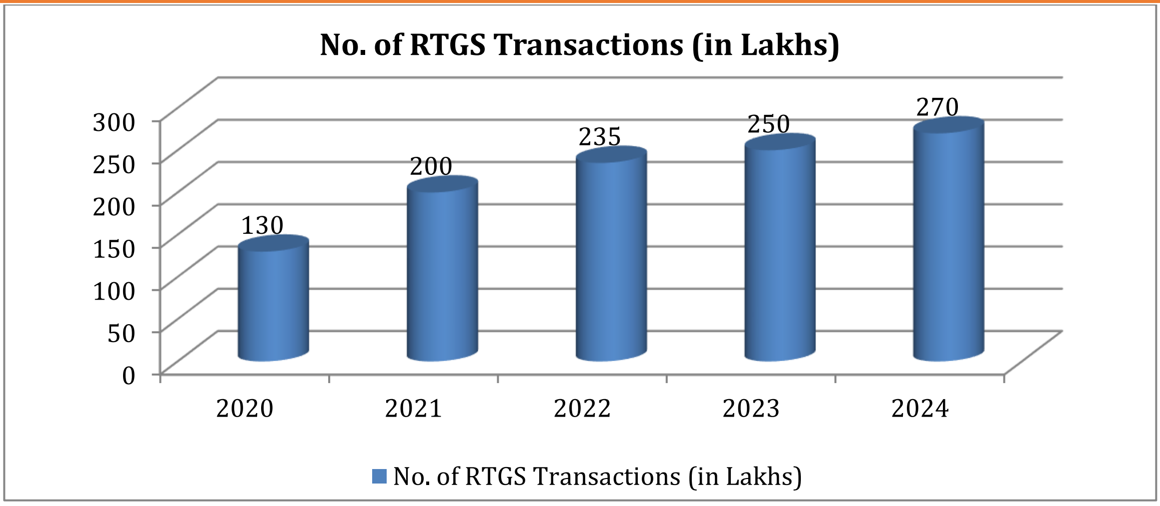
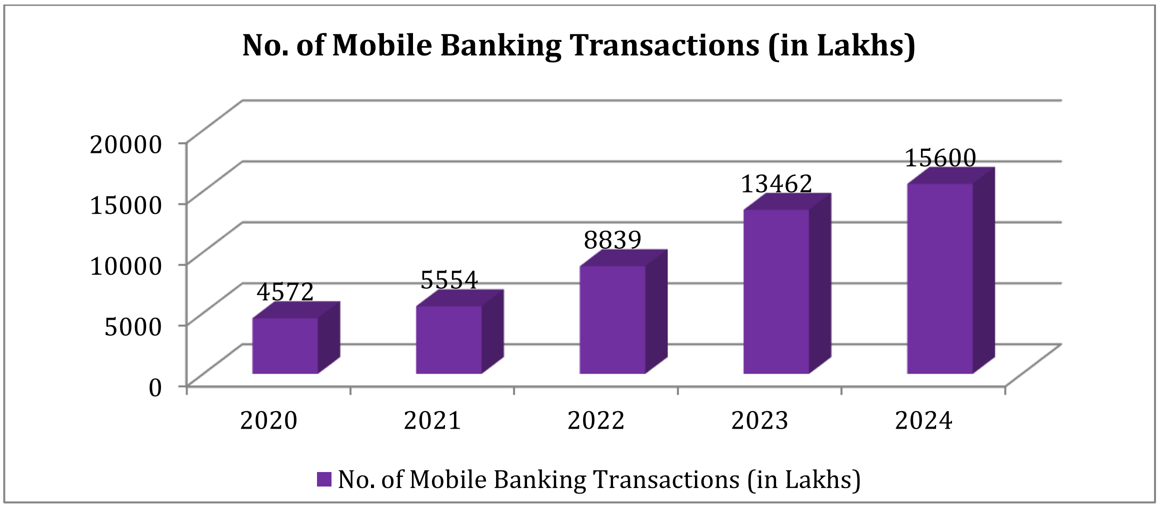


Source: Reserve Bank of India-Statistical Tables (Provisional Data)

f. Mobile Banking:

Mobile Banking is a service provided to the customers by banks and financial institutions to perform their financial transactions remotely by using mobile devices such as cell phones, smartphones, tablets, etc. Customers can access mobile banking only when the bank provides the related software or apps. It is usuallyavailable ona 24/7 basis. Mobile Bankingmainlydepends on the availabilityof internet facilities like internet or data connection to mobile devices. Mobile Banking will allow the customer to check his account balance, Fund transfers, Utility Bill Payments, etc. Different types of mobile banking services are mentioned below;



Source: Reserve Bank of India-Statistical Tables (Provisional Data)

g. Unified Payments Interface (UPI):

National Payments Corporation of India has implemented an instant real-time payment system. It was introduced in India in the year 2016. UPIfacilitates Peer-to-peer and Person-to-merchant transactions by transferring funds between two bank accounts on mobile devices. This is started as part of the Green Initiative to decrease the usage of paper in the domestic payment market. UPI payments are considered safe, secure, and interoperable. The usage of this payment method is drastically increased after the effectof COVID-19 globallyto eliminate the physical cash transactions. Thismethodis implementedto propose cash-less economy.

1.7. OPPORTUNITIES IN DIGITAL BANKING:

a. New Customer:

Mobile and Digital Banking are providing smooth and user-friendly banking services to the customers to open new accounts in their apps or websites from anywhere and anytime. Especially for Youngers to open their first accounts. Digital banking is providing all the services under one roof such as Account openings, Fund Transfers, Insurance services, DEMAT Services, etc.

b. Enhanced Services:

Digital banking enhanced the banking services to its customers to connect in new ways like applying for loans, applying for credit cards, enabling or disabling online transactions, updating e-KYC, linkingAadhar and PAN, BookingMovie Tickets and TravelingTickets, Wealth Management, and so on.

c. Partnership:

Third-party Apps and Fintech companies are partnering with the banks to deliver innovative solutions to their customers. This collaboration will reduce the focus on developing and maintaining their own in-house technologyand this will save more time and resources. This partnership will help the banks to meet the customer's expectations and improve customer experience.

d. 24/7 Banking Service:

This will helps the customers to access their bank accounts round the clock without visiting the branch. The transactions done by using mobile banking apps are quick, easy, and secure.

e. Online Bill Payments:

Online Bill payment is a secureelectronicservice thatallows the customerto paybills online. This will eliminate the wastage of paper. Banks will allow the customers to opt Auto payment option for clearing the due bills before the due date.

1.8. CONCLUSION:

In the present banking era, Indian banks are facing challenges and opportunities in the digital banking scenario. The GOI has initiated a campaign named Digital India program to ensure better customer service at their doorstep. By implementing digitalization in the banking sector now thecustomers can access the bank's products and services at their convenient time from anywhere and anytime. It allows the users to make online payments, open new accounts, make fund transfers, etc. This started shiftingthe paradigm from paper and cash-based bankingto paperless and cashless banking. Many financial innovations were introduced to their users such as internet banking, mobile banking, UPI payments, QR codes, Mobile Wallets, etc. Banks can adopt more innovative solutions and technologiesfor counterbalance and security measures too.

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