

DIGITIZATION OF BANKS IN INDIA

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Abstract

Digital banking is the digitization (or moving online) of all the traditional banking activities and programs that historically were only available to customers when physically inside of a bank branch. This includes activities like Money Deposits, Withdrawals, and Transfer, Checking/Saving Account Management, Applying for Financial Products, Loan Management, Bill Pay and Account Services. In India, the digitization of Banks started in late 1980's and since have brought about a revolution in Indian Banking.

Keywords: *Digital Transaction, electronic payment system, Digitization*

INTRODUCTION

Banking is one of those industries which has undergone a massive digital shift. Gone are the days of the physical bank branch alone. The digital era has commenced, and customers expect a consistent experience across channels – be it online, mobile, kiosks or the bank branch. From internet banking solutions to mobile banking solutions to e-wallets, latest trends are emerging in the digital banking space. DBS bank, one of the largest Asian banks, has seen its mobile transactions go to 70% of all digital transactions in the past 5 years.

HISTORY OF DIGITIZATION OF BANKS IN INDIA

The need for computerization was felt in the Indian banking sector in late 1980s, in order to improve the customer service, book-keeping and MIS reporting. In 1988, Reserve Bank of India set up a Committee on computerization in banks headed by Dr. C. Rangarajan. Banks began using Information Technology initially with the introduction of standalone PCs and migrated to Local Area Network (LAN) connectivity. With further advancement, banks adopted the Core Banking platform. Thus branch banking changed to bank banking. Core Banking Solution (CBS) enabled banks to increase the comfort feature to the customers as a promising step towards enhancing customer convenience through Anywhere and Anytime Banking. Different Core Banking platforms such as Finacle designed by Infosys, BaNCS by TCS, FLEXCUBE by i-flex, gained popularity.

The process of Computerization gained pace with the opening of the economy in 1991-92. A major driver for this change was propelled by rising competition from private and foreign banks. Several commercial banks started moving towards digital customer services to remain competitive and relevant in the race. 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

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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. RBI has been a guiding force for the banks in forming regulations and giving recommendations to achieve various objectives. Commercial Banks in India have moved towards technology by way of Bank Mechanization and Automation with the introduction to MICR based cheque processing, Electronic Funds transfer, Inter-connectivity among bank Branches and implementation of ATM (Automated Teller Machine) Channel have resulted in the convenience of Anytime banking. Strong initiatives have been taken by the Reserve Bank of India in strengthening the Payment and Settlement systems in banks.

CURRENT STATUS OF DIGITIZATION PROCESS

Indian Government is aggressively promoting digital transactions. The launch of United Payments Interface (UPI) and Bharat Interface for Money (BHIM) by National Payments Corporation of India (NPCI) are significant steps for innovation in the Payment Systems domain. UPI is a mobile interface where people can make instant funds transfer between accounts in different banks on the basis of virtual address without mentioning the bank account. Today banks aim to provide fast, accurate and quality banking experience to their customers. Today, the topmost agenda for all the banks in India is digitization. According to the RBI Report in 2016-17 there are 2,22,475 Automated Teller Machines (ATMs) and 25,29,141 Point of Sale devices (POS). Implementation of electronic payment system such as NEFT (National Electronic Fund Transfer), ECS (Electronic Clearing Service), RTGS (Real Time Gross Settlement), Cheque Truncation System, Mobile banking system, Debit cards, Credit Cards, Prepaid cards have all gained wide acceptance in Indian banks. These are all remarkable landmarks in the digital revolution in the banking sector. Online banking has changed the face of banking and brought about a noteworthy transformation in the banking operations.

National Electronic Funds Transfer (NEFT) is the most commonly used electronic payment method for transferring money from any bank branch to another bank in India. It operates in half hourly batches. At present there are 23 settlements.

Real Time Gross Settlement (RTGS) is primarily used for high-value transactions which are based on 'real time'. The minimum amount to be remitted through RTGS is Rupees Two Lakhs. There is no upper limit. Immediate Payment Service (IMPS) is an instant electronic funds transfer facility offered by National Payments Corporation of India (NPCI) which is available 24 x 7. The usage of Prepaid payment instruments (PPIs) for purchase of goods & services and funds transfers has increased considerably in recent years. The value of transactions through PPI Cards (which include mobile prepaid instruments, gift cards, foreign travel cards & corporate cards) & mobile wallets have jumped drastically from Rs.105 billion and Rs. 82 billion respectively in 2014-15 to Rs. 277 billion and Rs. 532 billion respectively in 2016-17.

CHALLENGES

Sustainable competitive advantage

One of the most important challenges that has been thrown into focus is the amount of digital banking initiatives that have incremental to no impact on business. Don't get me wrong; I am the fiercest advocate of experimentation; however, I believe that this effort should not be focused solely on cost and features. Cost and product provided competitive advance in the previous era. Our attempts need to be centred on experience. Poor experience leads to poor adoption and eventual failure of digital

initiatives.

Convenience and the death of loyalty

My earlier point above is further exemplified by the fact that we have moved into a post-loyalty world. Consumers are not tied down by the traditional bonds with their service providers. The uberisation of everything is also forcing banks to change the way they engage customers, who are now exposed to superior digital offerings from technology giants like Google, Facebook, and Amazon. We will need to learn from them, match up to them, partner with them, or perish in front of them.

Understanding customer context

The other area where organizations have suffered is trying to superimpose digital solutions on traditional customers. We were fortunate to identify this challenge early and craft a tech centric consumer segmentation approach called DISC (Digital Native, Intelligent, Social, Connected). This allowed us to think of fresh, agile, and relevant solutions that are helping us consolidate our digital leadership.

Automation and the future of work

One of the most important sociological challenges that has been thrown around is the impact of AI and Robotic Process Automation on traditional workforce. India has a proud legacy of a large service sector, with the likes of Indian Railways, India Post, and SBI being some of the largest employers in the world. Therefore, echoing the thoughts of my earlier articles; as a technologist, we need to proceed with care when we adopt automation. It is incumbent on us to understand the impact on jobs and help the workforce transition to newer roles. This will not only be responsible growth, but will have an exponential positive impact in the future.

OPPORTUNITIES

DISC Customers

The benefits of the DISC customers (mentioned above) is that they are ready sponges for digital solutions. We are no longer in an era where we have to explain the basic technologies that drive our digital offerings. The post-loyalty DISC customer is also seeking to reduce human-based help in favour of digital: self-help. This once again opens up the canvas for banks across product design, service delivery, and customer support.

Leveraging the power of Social

When I read that Facebook has 2.2 billion monthly active customers, my jaws dropped. What's more incredible is that Facebook is only the tip of the iceberg when it comes to social. The gold mine is using social technology for leveraging internal capabilities. Organisations that are able to identify this and organise efforts around this, will see huge dividends.

The right time and the right place

Whilst there is so much more to be said about the challenges and opportunities for banking in the digital era, especially in India, here are some important opportunities that we should seize:

- We have the largest penetration of mobile infrastructure than ever before.
- We have a government and regulator that have been promoting the development of a strong digital economy.

- The start-up machinery of India, especially the FinTech boom, has given a chance to all banks and NBFC to connect with agile and brilliant start-ups and take these solutions to their customers.

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