

IMPACT OF CHANGING BANKING PRACTICES ON THE INDIAN ECONOMY



Indian Council of
Social Science Research

ICSSR Sponsored Two Days National Level Seminar
(28.03.2023 to 29.03.2023)

Editors

Dr. R. Sathya

Dr. Padmaja DV

Organized by

Department of Commerce (Financial System)

PSG COLLEGE OF ARTS & SCIENCE

An Autonomous College, Affiliated to Bharathiar University

Accredited with A⁺ Grade by NAAC (4th Cycle)

College with Potential for Excellence (Status Awarded by UGC)

Star College Status Awarded by DBT-MST

An ISO 9001:2015 Certified Institution Coimbatore - 641 014



Since 1947

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DIGITAL BANKING IN INDIA

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ABSTRACT

Online banking supported by an internet connection is known as digital banking. A major portion of consumer traffic is now handled by digital banking apps and online banking, giving traditional banks a break. Digital devices including smartphones, tablets, laptops, desktop computers, and ATMs, customers may easily access their accounts and payments. During the COVID pandemic, when people were confined to their houses owing to social distance, it was more obvious than ever how advantageous digital banking was. As more people became aware of the benefits of digital banking, the use of digital wallets, bank applications, and contactless and cashless payments became more and more common.

Keywords: Digital Banking, Online Payments, Phone Wallets, UPI.

1.1 INTRODUCTION

The automation of conventional banking services using a digital platform is known as digital banking. Digitally enabled banking offers a number of benefits to banks as well as to users. Digital banking allows financial institutions to do away with cumbersome paperwork like checks, demand drafts, and pay stubs. Users of digitally connected banks can access all banking services around-the-clock without having to physically visit a bank office; all you need is a smartphone or a computer.

The features of digital banking are undoubtedly more geared towards the needs of the customer; thus the trend is here to stay. Digital banks are open around-the-clock and ready to help you whenever you need them. Responsive services are a blessing in today's fast-paced society when time is money.

1.2 TYPES OF DIGITAL BANKING PAYMENTS

In India, various digital banking systems are affecting not only the urban elite but also the rural sector. Several sorts of digital payments are used to categorise digital banking. These electronic payment methods take the place of cash and checks.

UPI (Unified Payment Interface)

The most well-liked kind of digital payments is UPI. This enables mobile money transfers from your bank account to the seller utilising a single window. For this type of digital payment, the payee's virtual address with permission for mobile payment must be entered. One app can be connected to multiple bank accounts.

Web-based banking

One of the earliest forms of digital banking is internet banking, sometimes known as net banking. If you have an internet connection, you can virtually manage your bank accounts. Clients can visit the bank's website, log in using their username and password, and

register. The bank ensures care during payments and transactions by taking into account multiple levels of security measures.

Cellular Banking

Mobile banking is yet another well-liked form of online banking. Customers who have accounts download the bank app to their smartphones. Smartphones may access all bank services, including payments and balance inquiries.

Financial Cards

All forms of digital payment require banking cards. Cards are evaluated based on their issuance, use, and digital payment methods. Debit, credit, prepaid, and electronic cards are the four different forms of financial cards.

Debit cards issued by the bank are connected to the bank account and can be used to withdraw cash from ATMs. These banking cards enable virtual payment for goods and services purchased from online and brick-and-mortar retailers.

Banks and non-banks both issue credit cards. These prepaid cards are employed for credit-based purchases of goods and services.

Bank Prepaid Cards support overdraft facilities and are not connected to bank accounts. The only amount that may be spent on these cards is the preset value.

For online e-commerce transactions, virtual debit cards which are electronic cards that function like debit cards are employed.

Phone Wallets

Mobile wallets are the equivalent of a wallet in the digital world that let users conduct various online digital transactions. Money added by the user and linked to their bank account is stored in a digital wallet. This is one of the most secure ways to make payments online, and it can be used for any transaction with the use of an internet connection and an app that is downloaded to a smartphone.

Indian Money Interface

Simple financial transactions can be made via the Bharat Interface for Money (BHIM) app, among other digital payment methods. Using your cell number and address, you can send and receive money instantly from one bank to another using the Unified Payments Interface (UPI). With their UPI ID or by scanning their QR code with the BHIM app, UPI users can send direct bank payments to anyone on the platform. A UPI ID can also make a money request through the app.

A Point of Sale (PoS) is an electronic device that is connected to the internet and used by a Merchant Establishment (ME) to swipe debit and credit cards from customers to complete retail transactions. The business figures out how much the client owes. The business will either print out or email the consumer a receipt after receiving the payment.

1.3 PRODUCTS & SERVICES FOR DIGITAL BANKING

The following are the different categories of goods and services:

Account holders don't need to visit their bank's branch to have their passbook updated; instead, they can examine or download their bank statements for any time period.

Mobile banking: Online banking via a smartphone or tablet app is known as mobile banking. These apps enable users to see account balances, make and receive payments, invest in fixed deposits, and more

Transfer of Funds: Checks and bank visits are no longer necessary because to the

alternatives offered by digital banks like NEFT, IMPS, RTGS, and UPI.

Payment of Bills: The auto-debit option enables users to set up automatic payments for bills so they never forget to pay one.

Finance: Digital banking, an account user can invest, obtain loans, and open fixed deposit accounts.

1.4 COMMON ELEMENTS OF ONLINE BANKING

- Banking that is conducted through a convenient and secure platform.
- The platform should be password-protected.
- Clients should find it simple to utilize both financial and non-financial banking products and services.
- The platform should make it simple to handle tracking with the most recent balance update, most recent transaction, and account statements. The digital banking capabilities for online fund transfer should continuously support NEFT, RTGS, and IMPS.
- It should offer speedy automated bill processing, the ability to keep track of investments and credit, and the ability to stop automatic payments.

1.5 DIGITAL BANKING ADVANTAGES FOR COMPANIES

Every component of the financial ecosystem like customers, financial institutions, banks, governments, and enterprises has profited from digital banking.

Convenience and effectiveness: Companies can now access all the services they require around-the-clock and are no longer restricted to the bank's business hours. This functionality is useful, particularly when transactional activity is frequent.

Greater usability: Customers are able to open accounts from the comfort of their homes thanks to the integrated KYC and AML features. In addition, banks can conveniently and swiftly serve consumers thanks to online ID verification technologies and risk assessment procedures.

Saving money: By reducing the stages and personnel needed for routine transactions, digital banking software lowers the possibility of expensive financial mistakes.

Increased cooperation with banks: An opportunity to connect and fortify financial ties is being observed as more firms are becoming open to working with banks.

Tailored services: Financial possibilities, learning materials, and interactive tools are among the informative and entertaining content that digital banks provide their customers.

Several features: Customers of digital banks can invest in cryptocurrencies, gold, or stock markets using the online banking app, which is something that an established bank cannot do.

1.6 INTERNET BANKING AND DIGITAL BANKING

The term "digital banking" refers to all online and mobile banking activities. Digital banking includes online banking, which allows consumers to do all of their banking transactions online.

Users can complete all of their banking tasks online via digital banking, which is a subset of digital banking. Daily operations including payments, checking balances, and bill payments are all available through online banking.

1.7 DIGITAL BANKING RISKS

While digitally enabled banking is unquestionably a boon for the financial sector, there are a few concerns to be aware of:

- Information security and privacy Operational Risk Risk
- Personal Behavior Risk Stability and Resilience of Technology Risk
- Regulatory Danger
- Risk to Third Parties
- Danger of Money Laundering

1.8 INDIA'S FUTURE IN DIGITAL BANKING

The stale, out-of-date banking business has received a new viewpoint thanks to digital banks and challenger banks. According to studies, the industry for digital banking is at a turning point and is expected to increase at a compound rate of 23.1% from 2022 to 2030. It is obvious that internet banking services are a part of the future of finance. Nevertheless, this is only feasible if digital banks are seen as a viable alternative to conventional banks. There isn't a single company or bank that doesn't engage in some sort of interaction with digital banks.

1.9 INDIA'S EXPANSION OF DIGITAL BANKING

In India, Covid-19 has effectively added a new dimension to the development of digital banking. Around that time, digital adoption in India grew rapidly. At the micro level, change was facilitated by the advent of new digital participation from other financial firms. According to a Mastercard global poll, Indians are the most open to adopting new digital payment methods in the Asia Pacific region. In addition, the study paper from Boston Consulting Group (BCG) notes that India's digital growth is due to a "surplus of capital, mature infrastructure, and favourable underlying customer demographics." Indian banking is serving as a "model banking of the future," paving the way for the adoption of QR codes and UPI payments. The management of data and lending both need to use this strategy. These essential drivers of growth constitute the foundation of Indian banking's digital revolution.

- Banks establish a strong foundation for trust by utilising client awareness. They have a consumer base and a variety of digital platforms because they are a brand.
- Their assets now have much more leverage thanks to existing financial services.
- Banks have 100% automated tech stacks and offer distinctive and attractive value propositions in their commercial offers. They also record great digital performance supported by employee agility.
- Data and analytics are essential to marketing and credit.
- In the banking industry, risk management in digital banking is more rigorous and accountable.

1.10 ISSUES WITH DIGITAL BANKING

The reliance on online banking increased under COVID. Digital lending, wealth management, and investing have all benefited from the growth of online banking. Banking is now more widely available, and customers are becoming more eager to use better technologies. But, due to the pressure of digital banking and the increasing demand, banks are finding it difficult to adjust to the new client behavior.

Change in Banking Practices and Products via Innovation

With swift customer service as their main priority, banks struggle to maintain a quick

network and support client agility on their digital platforms. All financial services should focus on developing financial solutions through interactive tools and customised products as the use of non-cash payments grows in popularity and popularity among digital transactions. Goods that satisfy customer needs should be offered in the local language in a way that it reaches the population that is less literate, especially in the tier 2 and beyond sections of the nation. While introducing new items, dispute management should be well managed. To answer consumer choice and product requirements, it is important to quickly recover customer real-time insights analysis that offers more accuracy.

The bank's focus should shift from data-intensive chores to initiatives like product improvement, business development, improving compliance, and enhancing client connections as a result of the technology-enabled transition.

Security Issues

With the growth of digital banking for the convenience of clients, the risk of fraud in financial transactions exposes both customers and institutions to con artists. Banks are working to raise customer knowledge of the types of dangers that customers may encounter. Children must never give out private financial information to unknown callers, email addresses, or text message senders. Individuals should exercise caution when carrying out financial transactions and periodically change the secure credentials/passwords.

Banking institutions use multiple layers of security measures that let customers halt transactions at any time if they have any doubts. Banks encourage their clients to always check the Uniform Resource Locator before clicking any unfamiliar links (URL). Use the bank's official website or banking app for any financial transactions. Frauds are a persistent threat while trying to obtain sensitive information:

Vishing: The practice of disclosing financial data under the guise of upgrading KYC, unblocking accounts, SIM cards, and debit/credit cards.

Phishing: False emails or SMS messages created to make recipients believe they are coming from a bank.

Consumers unwittingly download a mobile or computer application that grants access to customer data through remote access. Sending false messages to try and collect money utilising the UPI "collect request" feature. Fake bank account information, e-wallets, inaccurate search engine results, and social media fraud. In order to prevent consumers from falling prey to these fraudulent activities, banks must take special precautions by providing them with information about what they must do and should not do.

Technological Problems

Banks have serious concerns about disconnectedness and a lack of reliable data. Banks are attempting to prevent issues with increased demand loads brought on by digital technologies. Depending on technologically advanced systems is the minimal assumption given the increased customer expectations for enhanced and quick banking. In order to scale the infrastructure based on rather dated core banking systems to accommodate modern technology, banks should deploy SaaS teams of developers.

They need to make sure that the banking digital service is flexible enough to adapt to new technology. Banks should maintain a front-end emphasis while embracing modern technology and innovation and making preparations to be future-ready to handle client pressure. Banks should be able to limit technological decrease in UPI payments as well (TD).

Banks need to manage UPI outages effectively.

Personal Connections are lacking

Customer service plays a key role in helping banks both retain and grow their clientele. The reputation of the bank may suffer if a negative experience with the service provider is not resolved by the relationship officer at the appropriate time. Non-human bots and customer care helplines are gradually replacing the individualized service that clients still desire as a result of technology becoming the first face of digital banking. Customers may become so frustrated with these automated services that they give up. The majority of online banking programmes generate lists of potential queries for users in an effort to address issues. Yet, not all queries target particular issues raised by clients. Most people are impatient and short on time. They would rather receive immediate assistance. As a result, when someone wants to know what the loan application procedure entails, they are given a series of questions that are similar, which annoys and demotivates clients to use another service provider. Personalized support must coexist with AI and cannot be fully eliminated. Long lines for customers are not acceptable, and speedy service must be the goal. Further work needs to be done on the automated system to handle the precise consumer query, increasing client expectations. Consumers are quickly converting to cutting-edge internet goods and services. This transition may be seen in the rising number of digital payments made in India using the Unified Payments Interface (UPI) in August 2022, totaling INR 10.4 lakh. Throughout the epidemic, online and mobile banking both experienced fast growth. Consumers want their banking apps to operate more quickly and effectively. It's necessary for a younger, more nimble workforce functioning with a tolerance for risk to redesign legacy technologies. Customer trust will rise as security is increased at every level and vulnerabilities are reduced.

CONCLUSION

The aspirations of a digital India are consolidated by various forms of digital payments. In order to facilitate a "Faceless, Paperless, Cashless" economy, the government is encouraging more digital transactions through bank accounts. The digitally empowered economy will increase financial independence by enabling simplicity of payment and greater inclusion that affects even the small-time store owner in a village. India is experiencing a revolution in banking and financial technology that is being driven by an incredible talent pool. Innovation in digital banking will open up new vistas for customer inclusion if there is an attitude of flexibility, parallel effort on the part of the government, and close monitoring by the RBI. The future of digital banking appears bright and hopeful with the introduction of the Digital Banking Unit (DBU), a minimal hub of digital infrastructure providing banking services, and the planned incorporation of the metaverse with its enormous possibilities.

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