

Digital Banking in India- Prospects and Constraints

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Abstract: *Banking was previously a time-consuming activity. If someone needed to withdraw cash, it was required to visit the nearest branch of the bank and it was mandatory to fill and submit the withdrawal slips or submit check and then he would get his cash. Thanks to the new technologies all of this is history and the way things were performed has changed because of Digital Banking. The concept of Digital banking involves with performing the financial transaction between two parties entirely online or electronically without using the paper documents such as Cheque, Slips, etc. The rise of Digital banking is the greatest development in the Banking history. It has not only made banking easier today but it also assisted people in making the transition to paperless or online transactions, people may now effortlessly conduct transactions or transfer money with just one button click on their smart phone, desktop or any digital device. In spite of technological advancement in the digital banking field there are many constraints like internet availability, low technological exposure in rural areas, online frauds and improper infrastructure. This research attempts to study and understand the phenomenon of digital banking. As the various countries and global institutions are promoting the growth and development of the digital banking for the benefit of the world. This study also gives an overview of Digital banking's prospects such as economic transparency, new banking services for Gen-Z and various Banking trends, along with various constraints like lack of knowledge, cyber security and host of others.*

Keywords: Digital Banking, Digital Banking Constraints, E-Banking, Prospects, Constraints, Cyber Security, Technology, Digital Bank

I. INTRODUCTION

In the modern era, the banking has been dramatically transformed through digitalization. The transactions are conducted with more speed, ease and convenience using digital banking. Banks are turning to digital channels to deliver their services as a result of global trends in the digital banking market, which are driving up mobile phone usage and internet penetration globally. Additionally, they are collaborating with FinTech businesses and other third-party interfaces to develop new customer-centric products and services and, as a result, provide a better client experience. Government is also driving the usage of digital banking services through a number of worldwide initiatives. Demonetization is one policy that has been implemented as a result of governments in various nations' focus on going cashless. Demonetization encourages and pushes different merchants to accept digital payments.

Digital banking is one of the fastest growing industries in the world. There are some security constraints that banks are unable to control, and these constraints are often the cause of customer losses. Banks are working to make the digital banking experience more personalized and fun for their customers.

1.1 Objectives

- To study the Prospects of Digital Banking.
- To study the Constraints of Digital Banking.
- To analyse the factors affecting Digital Banking.

II. RESEARCH METHODOLOGY

This research is based on secondary data, One of the most important users of research methodology is that it helps in identifying the problem, collecting, analyzing the required information data, and providing an alternative solution. The

secondary data has been sourced from various published Research paper, annual report of the bank, online resources, banking and finance journal, books, magazines, and Ph.D. thesis etc.

III. LITERATURE REVIEW

One of the biggest problems in the working of electronic banking transaction in India is cyber-crime and illegal access. Mr. Akshaya Kumar suggests that government must launch financial literacy campaign to make population aware of benefits of using e-banking for cashless transactions, he says. Dr. Lekshmi Bhai.P.S in her research paper entitled E-BANKING IN INDIA - PROBLEMS AND PROSPECTS (2019), focuses on the how the Indian banking sector has completely transformed. She mentions that the main objective behind integrating banking services with technology is convenience and efficiency. Dr. Radha Raghuramapatruni addressed the evolution of Modern banking that started from 1980s with the use of Advanced Ledger Posting Machines (ALPM) to the most recent way of banking. She also addressed the role of IT in this Phenomenal technology change and different challenges such as Implementation of global technology, customer satisfaction, NPAs, etc. K. Anita researched the potential and difficulties associated with e-banking in India. It provides a comprehensive picture of the issues it faces as well as its potential. The strategic business factors that go into banking in India have been significantly impacted by the resurgence of online banking.

IV. DIGITAL BANKING

Digital banking is the production and engagement of a service from beginning to finish for the benefit of the digital consumer who nimbly expands the channel. Obviously, the word "digital banking" cannot be viewed as a simple product. However, it should be viewed as the bank evolving into a fresh shape that will rule in the future. Almost every aspect of life has been affected by the use of the Internet over the previous two to three years, from booking flights to purchasing music, books, and other things at wholesale or retail prices to transportation. Since the 2000s, banking in Indonesia has begun to incorporate technology advancements via the Internet by offering services that facilitate transactions and business clients. At that time, the term started to circulate and was often used to refer to Internet banking and online banking.

VI. PROSPECTS

The markets are being encouraged to use e-banking despite a number of issues that are now present in India with regard to e-banking. Although digital banking is still in its infancy, it's encouraging to know that certain banks have already adopted it and are leading the way for legacy institutions. The opportunities that banks have in terms of digital banking are described below.

5.1 Untapped Rural Markets

Markets in rural areas are throne-paved gold mines. With a population of 833 million people spread throughout 640867 villages, rural India represents a massive untapped market for any marketer. The population of a village can vary greatly, from under 200 to over 10,000. The percentage of rural homes with telephones is about 54%. Through a number of programmes, the federal and state governments make significant investments in rural development. The banking industry in India has a largely unexplored market, accounting for 70% of the country's entire population

5.2 Multiple Channels

To expand their customer base, banks can provide a wide range of access points to their banking and other services, including ATMs, neighborhood branches, telephone and mobile banking, video banking, and more. Customers now have more options than ever before when it comes to banking and financial transactions thanks to the lightning-fast evolution of financial services. Banking methods:

- **UPI:** There are several UPI apps on the market, and they work on both iOS and Android devices. The total amount of UPI transactions so far in 2022 is INR 89.10 Lakh Cr (\$1.09 Tn).
- **NEFT:** One-to-one fund transfers are made possible via the National Electronic Funds Transfer (NEFT) payment mechanism. In October 2013, there were 113.8 million NEFT transactions in total; in July 2022, there will be 803.7 million transactions.

- **RTGS:** Another payment mechanism that credits funds to the beneficiary's account in real-time and on a gross basis is known as Real-Time Gross Settlement (RTGS). Additionally, the number of RTGS transactions increased, going from 13.9 million in October 2013 to about 38 million in July 2022.

5.3 Decentralized Banking

Blockchain is said to be the future technology of banking and network named India Chain. The network is expected to transform industries like payments, stock exchanges, and lending. It is more popular because of its nature which is decentralized has almost negligible amount of fraud that could happen.

5.4 Worthy Customer Service

Every interaction with a client presents a chance to increase that person's trust in the bank. Service that is prompt and effective will improve reputations, lower complaints, and boost sales. 48% of bank clients want special treatment and benefits in return for their loyalty to your bank.

5.5 Supportive Government Policies

- **Reserve Bank of India (RBI):** The Reserve Bank of India (RBI) has launched a series of books, diaries and posters on financial literacy. Topics include understanding interest rates, inflation and other principles of financial well-being. Other components include information on ATMs, payment systems and Ponzi scams.
- **Securities and Exchange Board of India (SEBI):** Additionally, SEBI emphasizes on both general and industry-specific financial literacy, it organizes public relations campaigns and events like the World Investor Week since it regulates the Indian capital and securities markets.
- **Insurance Regulatory and Development Authority of India (IRDAI):** IRDAI works on content creation by producing brochures, handbooks, and other materials, just like the other regulators.
- **Pension Fund Regulatory and Development Authority (PFRDA):** In 2018, the PFRDA developed a special website named "Pension Sanchay." This website attempts to improve financial literacy from the perspective of retirement.

5.6 Encouragement of Digital literacy.

India's banking sector should use this chance to encourage more internet users to use online banking services by taking advantage of India's rapidly growing internet user population. It is crucial or a must for using online banking that users have some familiarity with internet technology so they can quickly take use of the services. Online finance will take off and there will be growing convergence in terms of product offers for banking services, share trading, insurance, and loans. In order to keep up with the demand for anytime, anywhere banking, banks may need to provide different online banking services from their current offerings.

VI. CONSTRAINTS AND CHALLENGES

Over time, the RBI has aligned its regulatory policies towards the goal of financial deepening. The addressable credit gap of \$25 trillion implies that further structural policy changes are necessary. The regulatory void that exists in India is a cause of the pervasive Neo-bank business model. Fintech has adapted and embraced the "front-end neo-banks" model because "full-stack" digital banks lack a licensing system. But there are a lot of challenges India faces when it comes to making Digital banking more efficient and some of these challenges are mentioned below:

6.1 Challenges with the Existing "Partnership-Based" Neo-Bank Model: These Neo-banks have furthered their specializations into products for both consumers and small businesses. A typical small business-focused fintech that provides neo-banking services will provide payroll management, accounts receivables management platform, business loan / credit line facility through the banking partner, expense management products (like employee prepaid cards), and expense management platforms.

6.2 Cyber Security Concerns: Malware is a Malicious software is introduced into computers, servers, or networks during malware assaults. The worst data breach in India's banking system, which compromised over 3.2 million debit cards in 2016, was brought on by malware that was injected into its systems. It said that it had no idea how much data had been exposed. In phishing attacks, hackers pretend to be bank employees and contact consumers via emails, phone calls, or SMS messages in order to get sensitive data such as login credentials and credit card numbers. Over 9 lakh cases of Phishing and vishing have been reported in the last 2 years and customers have collectively lost nearly 15000 crore due to such incidents between 1st April 2020 and 31st March 2022, the government informed.

6.3 Informal Lending

Informal Credit operations involve lending among friends, family members, kin members, landlords, neighbours, shop owners, farmers, craftsmen, itinerant traders, marketing middlemen, village moneylenders, and other local income groups. In India, friends and relatives are estimated to receive more than \$200 billion in informal loans annually, according to estimates from the Bangalore-based market research company RedSeer..

6.4 Education and Training

As we all know, there is a severe skill shortage in the Indian economy, which is 9% more than the global average. With the rapid emergence of digital technology, it is more important than ever for the workforce to be equipped with the abilities necessary to adapt to these changes. This skill gap has received attention. The amount of money allotted for education has increased by 5% in the 2020 Union Budget.

6.5 Less Internet Availability

The digital banking transaction and internet service has been developed in India. Most of the cities are enriched with providing free WiFi - services at railway and metro stations, shopping malls and cinema theatres. But still the knowledge and availability of internet in rural India is still a one of the biggest challenges.

VII. FINDINGS

- The banking industry in India has a largely unexplored market accounting for the 70% of the country's entire population.
- There is a large section of the market that is untapped and majority of this resides in the rural area.
- Worthy customer service has become more important than ever for customer retention and customer satisfaction.
- In recent years, government has also started promotion and development of digital banking.
- Different types payments methods are available according to the convenience of the people such UPI, NEFT, RTGS, IMPS.
- The use of e-banking benefits banks in a variety of ways, including by lowering costs, enhancing client relations, expanding the geographic reach of the bank, etc.
- As the world gets more computerized, cybercrime has become more common, the users may suffer financial loss as a result and the financial loss may result from the theft of financial information as well.
- Bogus websites are created by the hackers to collect the login information from the bank account holders.

VIII. CONCLUSION

After the thorough analysis of aforementioned constraints and future prospects of digital banking, it is found out India has the enormous potential of development and growth of digital banking but still we have very long to go. With the integration of technology in the banking service new and efficient services such Unified Payment Interface are being used by citizens and businesses, which is a state-of-the-art technology fully developed indigenously. India's public digital infrastructure, particularly UPI, has shown how to successfully compete with long-standing competitors. The value of UPI transactions measured has crossed 4 trillion. But the main obstacle here is to impart financial literacy to such customers through bite-sized learning. This will proactively help them know more about financial literacy and how to use it. Such strategies have already reaped benefits for a number of Fin Techs that have used financial literacy which was considered as a problem as a stepping stone for building brand trust and acquiring customers. Although there are a few

constraints, but government is taking necessary steps to control them and the potential of digital banking is high with the likes of technologies like UPI not only operating in India, but various other countries also adopting it.

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