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Digital Banking In India-Trend And Challenges

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Abstract

Digital banking is the new concept in E- Banking which aims to provide the services through internet and mobile banking by integrating various technologies. . Some of the examples of digital banking that we use in day to day life are Internet banking, Mobile banking, Wallet banking, Customer Service, Digital Cash, ATM, SMS Services etc .

This paper aims to study the various concepts, Modes, Trends and Challenges of Digital Banking in India. The study is descriptive in nature which is based on the secondary data collected from official site of RBI.

Introduction

DIGITAL Banking is the new model that offers considerable benefits to banks in terms of increasing productivity and profitability. It is having the advantages in improving the 4Cs – cost, convenience, control and customer experience. Digital banking is the step to move toward online banking where banking services are directly delivered over the internet by using technologies. Digital banking is the new concept in E- Banking which aims to provide the services through internet and mobile banking by integrating various technologies. The necessary steps in the digital banking journey have been concentrated in adding to the existing services with new technology-enabled services, to increase the intelligibility and value for customers. Some of the examples of digital banking that we use in day to day life are Internet banking, Mobile banking, Wallet banking, Customer Service, Digital Cash, ATM, SMS Services etc .

Features available through Digital banking are:-

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1. To View balances: Checking balance doesn't require much work. Simply select Account balances and take a look at balance and past transactions. If a person has more than one account, a person can also do transfers between accounts.
2. To pay bills online: a person just need to add to his account the names of the companies to whom to pay bills. Go to the Pay Bills section, select the Add payees, search for the particulars of the company and fill in the account number for company to whom payment is to be made.
3. To Transfer funds: selecting Funds transfer, person will be asked destination to transfer the money to and from, with time and amount.
4. To set recurring bill payments or transfers: to make a regular payment every month, might be convenient to set up an automatic withdrawal from the account.
5. Digital banking also provide advanced features like loan calculators, premium calculators, tools for financial planning, tools to analyze investments, tax preparation, etc.
6. Unified Payment System (UPI): UPI app can use payment and transfer fund from and to UPI enabled banks. Major UPI Apps are Google pay, BHIM, Phone Pe etc.

7. Digital Wallet: After demonetization, people have started using m-wallets. Digital wallets are the best innovations in the field of banking technology. some of the examples are Paytm, MobiKwik, JioMoney, Oxigen,State Bank Buddy etc

REVIEW OF RELATED LITERATURE

1. **Er. Vishal Mohan Goyal & Mrs. Gania Goyal has studied "Customer perception towards Internet banking w.r.f to private and foreign banks in India"** in 2012. With the sample size of 150 in NCR area with the help of SPSS and techniques used were MDS and multiple regression. The major finding of the study was that people use Internet Banking for convenience more or less for shopping, the study also states that security is main reason for not using internet banking.

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2. **Alzaidi A., Qamar S. (2018), Factors affecting the adoption of Internet Banking,** ***International Journal of Business Information Systems (IJBIS), Vol. 28, No. 1*** The objective of the study was to identify the factors, which are affecting the adoption of IB. study was based on the analysis of 122 papers, 44 factors were identified affecting the adoption of IB. Ease of use, security, ease of usefulness, trust and prior IT knowledge are considered important among 44 factors.
3. Golani, P. (2017, may 27). **Digitalization in Banks – Trends, Opportunities and Challenges**. *Present vs. Future dilemma – Invest Right Now Or Save For Tomorrow*. Mobile penetration about 90% is likely to help in financial inclusion. Mobile phones are help in spreading the digital growth in India, taking into account the expected level of penetration and as the youth of India prefer to use smart phones instead of standing in long queues to avail services. The current and expected extensive reach of smart phones in the country provides a modern and low-cost medium, to the reach of banking and payments services.
4. Rathee, D. V. (2017). **Perception of customer towards service quality: a study of digital banking practices**. *International journal of management, IT&ENGINEERING,* 1-19. As one fourth of customers are using mobile phones and computers for their banking functions Customers are now more willing to go to digital banking services from their computers, smartphones and tablets rather than going personally to the bank. Study also states that there are about 700 million customers are digital consumers across Asia. The locations of bank have now become the least significance because of digital banking. Digital modernization gave a chance to traditional banks and helps in customer satisfaction and loyalty.

RESEARCH OBJECTIVES

This paper solely aims to study
1. Modes of Digital payments in India
2. Trends in Digital Banking payments
3. Challenges faced by the users of Digital Banking services

RESEARCH METHODOLOGY

This study is based on the study of the recent trends, modes and challenges in digital banking payments with the help of secondary data collection. Thus, the

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sources of data is Report on Trends and Progress of Banking in India and the Report on Payment System Indicators published by Reserve Bank of India (RBI), Mumbai, NITI ayog for the FY 2018-19. The digital banking payments studied in this paper are: Retail Electronic Clearing Services – Electronic Clearing Services (ECS), National Electronic Funds Transfer (NEFT), Immediate Payment Service (IMPS) and National Automated Clearing House (NACH); Plastic Money – Credit Cards, Debit Cards; Prepaid Payment Instruments (PPIs) – Mobile Wallets and PPI Cards; Mobile Banking; Point of Sale (POS); Unified Payments Interface (UPI) / Bharat Interface for Money (BHIM). Apart from these, the very recent services AAADHAAR Enabled Payment Systems (AEPS), Bharat Bill Payment System (BBPS) and Bharat Quick Response Code Solution (Bharat QR) will also be introduced to the readers.

Modes of Digital Payment Systems:

The payment system could be bifurcated into two main segments. The first segment consists of instruments which are covered under Systemically Important Financial Market Infrastructure (SIFMIs) and the second segment consists of Retail Payments. The list of instruments covered under the same are mentioned below:

1. RTGS

Financial Markets Clearing (2+3+4)

2. CBLO (Collateralized Borrowing and Lending Obligation)

3. Government Securities Clearing

4. Forex Clearing **Total SIFMIs (1 to 4)**

Paper Clearing (5+6+7)

5. CTS (**Cheque Truncation System)** 6. MICR Clearing

7. Non-MICR Clearing

Retail Electronic Clearing (8+9+10+11+12+UPI)

8. ECS DR (electronic mode of payment / receipt for transactions) 9. ECS CR

10. EFT/NEFT 11. Immediate Payment Service (IMPS)UPI

12. National Automated Clearing House (NACH)

Card Payments (13+14+15)

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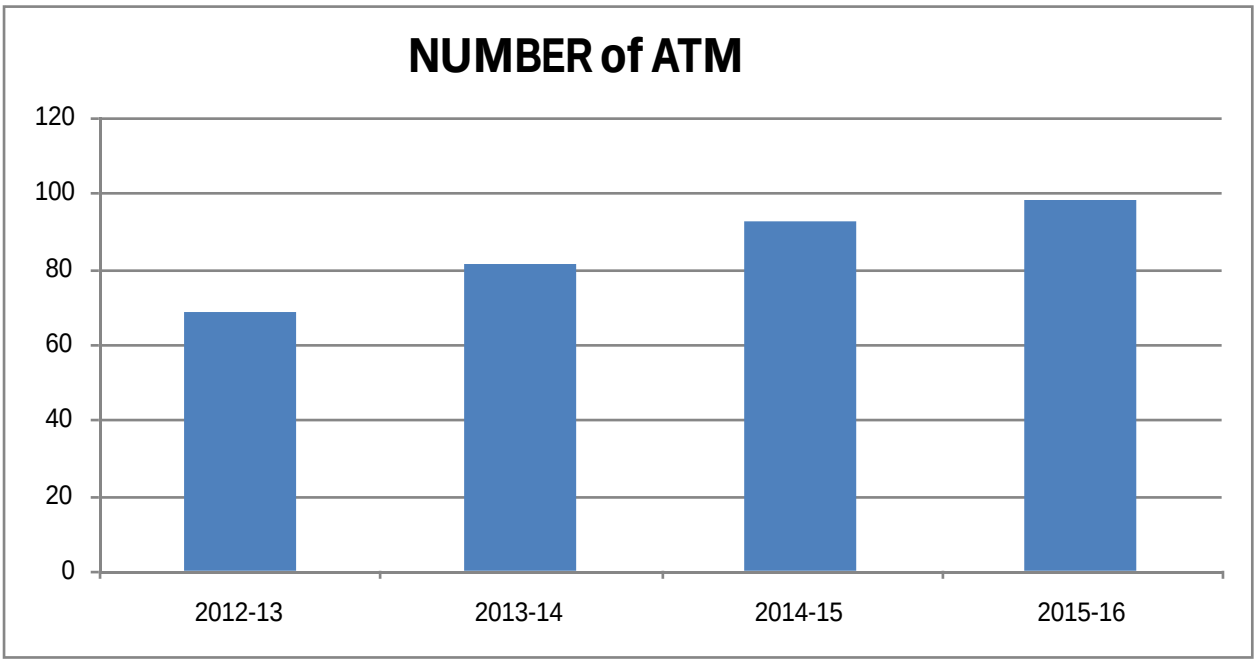
13. Credit Cards 14. Debit Cards 15. Prepaid Payment Instruments (PPIs)

Total Retail Payments (5 to 15+UPI)

Growth Trends based on the data provided by RBI

Automated Teller Machines (ATMs) Automated Teller Machines (ATMs) known as an automated banking machine (ABM) is an electronic device that enables the customers of a bank / financial institution to perform monetary transactions, particularly cash withdrawal, without the need for a human or bank teller. The other functions performed by an ATM are to check deposits, printing of receipts, balance enquiry, generating PIN, Passbook printing and so on.



As the chart states that from the year 2016 to 2017 there is increasing trend in the No. of ATM but in 2018 & 2019 there is a declining trend in the Number of ATM which may be due to Mergers of Banks, cutting of operational cost etc

Real-time gross settlement (RTGS)

Real-time gross settlement (RTGS) is the continuous process of settling payments on an individual order basis without netting debits with credits across the books of a central bank

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(e.g., bundling transactions). Once completed, real-time gross settlement payments are final and irrevocable.

- Real-time gross settlement (RTGS) is the continuous process of settling interbank payments on an individual order basis across the books of a central bank—as opposed to netting debits with credits at the end of the day.
- Real-time gross settlement is generally employed for large-value interbank funds transfers.
- RTGS systems are increasingly used by central banks worldwide and can help minimize the risk to high-value payment settlements among financial institutions.

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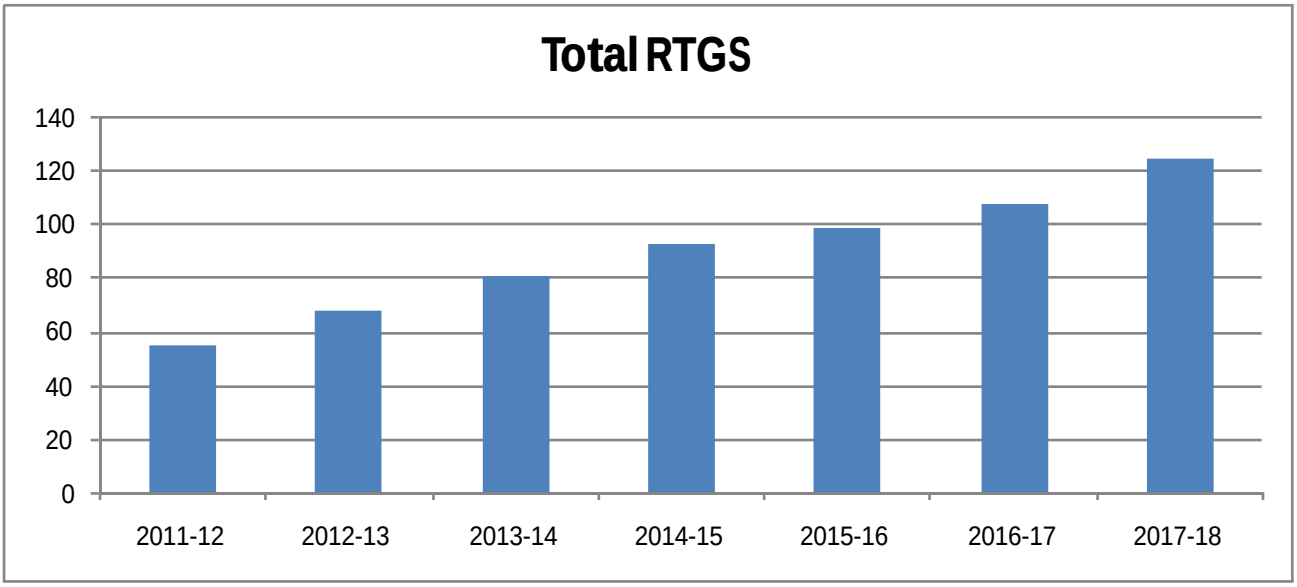

As shown in the chart there has been continuous increase in the payment system through RTGS from the year 2011-12 to 2017-18 i.e. from 55 million to 124.5 million

RETAIL ELECTRONIC CLEARING

1. ECS (**Electronic Clearing Services)**

It is an electronic form of funds transfer from one account to another account. It also makes possible electronic credit/debit transaction associated with customer's account. It is usually used for transactions that are repetitive or periodic in nature.

ECS credit: In this ECS, an institution makes a credit payments in bank account, e.g. your dividends, salary etc. A single account is debited periodically to credit multiple accounts.

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ECS debit: In this ECS, payments are made in respect of EMI for your loans, mutual funds, premium of policies etc.

2. **NEFT**

National Electronic Funds Transfer (NEFT) is a nation-wide payment system which helps in one-to-one funds transfer. Under this service, individuals, firms and corporate can electronically transfer funds from bank branch to any individual, firm or corporate having an account with any other bank branch in the country. It is offered by the Reserve Bank of India (RBI) with the prescribed fees laid down by the banks.

3. **IMPS:**

Immediate Payment Service (IMPS) offers an immediate 24X7 electronic fund transfer service through mobile phones. I.M.P.S. is a tool to transfer money within banks across India through mobile, internet and ATM. It is offered by India's sole retail payment organization which is National Payments Corporation of India (NPCI).

4. **UPI:**

Unified Payments Interface (UPI) is a system that facilitate multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing & merchant payments into one platform. It also caters to the "Peer to Peer" collect request which can be scheduled and paid as per requirement and convenience.

5. **NACH:**

"National Automated Clearing House (NACH)" is a service offered by NPCI to banks which aims at interbank high volume, low value debit/credit transactions, are repetitive and electronic in nature. The system leverages the Core-Banking Solution (CBS) of participating banks for centralized posting of inward debit / credit transactions and is run by NPCI.

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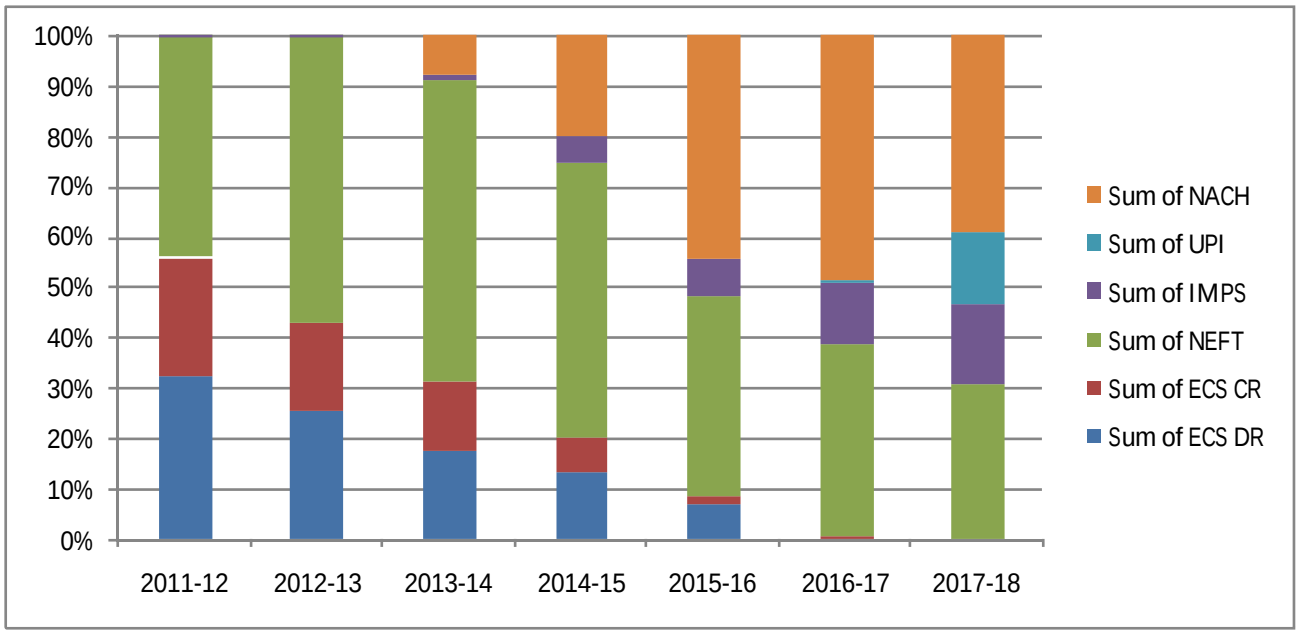

CARD PAYMENTS

Credit Card:

A credit card is a card issued by a financial or banking company which enables the cardholder to borrow funds. The funds may be used as payment for goods and services, with a condition that the cardholder will pay back the original, borrowed amount plus any additional agreed-upon charges. The issuer pre-sets borrowing limits which have a basis on the individual's credit rating. These cards can be used domestically and internationally and can also be used to withdraw cash from an ATM and for transferring funds to bank accounts, debit cards and prepaid cards within the country.

Debit Cards:

A debit card is a payment card that deducts money directly from a consumer's bank

Account to pay for a purchase and eliminate the need to carry cash or physical checks to make purchases. In addition, they offer the convenience of credit cards and many of the same consumer protections when issued by major payment processors like Rupay, Visa or MasterCard, but unlike credit cards, they do not allow the user to go into debt, except perhaps for small negative balances that

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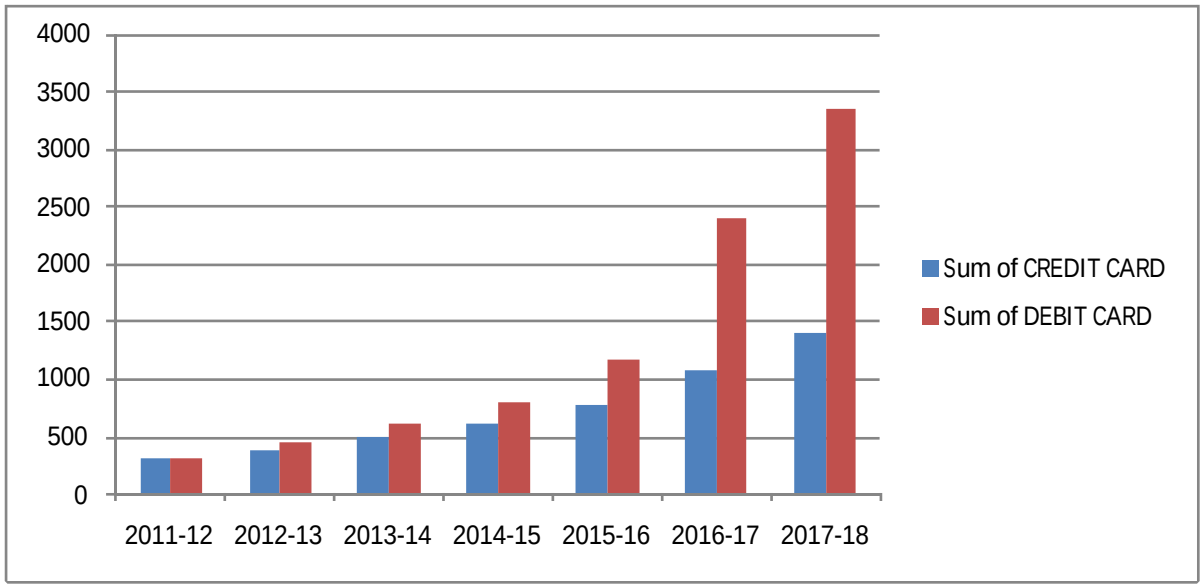
might be incurred if the account holder has signed up for overdraft coverage. However, debit cards usually have daily purchase limits, meaning it may not be possible to make an especially large purchase with a debit card.



As per graph there was a very little use of debit and credit cards among the people, till 2014-15 ratios of both the cards are same. But after demonetization there was drastic increase in credit and debit card in 2017-18.

AADHAAR Enabled Payment System

AADHAAR Enabled Payment System provides basic financial services (cash deposit, balance enquiry, cash withdrawal and remittance) at low cost access devices (called Micro ATMs) maintained at Business correspondents in an inter-operable way.

The 5 AADHAAR enabled basic types of banking transactions are:

Cash Withdrawal

Cash Deposit

AADHAAR to AADHAAR Funds Transfer

Balance Enquiry

Gateway Authentication Service

The four AADHAAR enabled basic types of banking transactions are as follows:-

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Balance Enquiry

Cash Withdrawal

Cash Deposit

AADHAAR to AADHAAR Funds Transfer

BHIM APP

Bharat Interface for Money (BHIM) is an app that lets you make simple, easy and quick payment

Transactions using Unified Payments Interface (UPI). You can make instant bank-to-bank payments and Pay and collect money using just Mobile number or Virtual Payment Address (VPA).

Digital banking challenges

Digital banking challenges refer to factors that are obstacles in the digital banking from stabilizing and becoming a universal banking method for everybody which includes:

1. Security

This is one of the first factor that comes into one's mind when keeping money is mentioned anywhere. The hackers are still giving financial institutions a run for their money. Therefore, customers are not willing to take any chances. The banking security is nothing like downloading and installing an antivirus.

2. Trust

Although many people are using digital banking, still lots of people don't trust it. Also, some people are not convinced about digital banking unless they have proof that a bank exists in brick and mortar form. This makes it hard for digital banking to become completely digitized.

3. An evolution from ancient banking systems

Many people don't know it, but most banking systems use COBOL programming language. This has been around for more than 60 years and was not meant to suit the kind of technology that is available today. Upgrading these banking systems and install the suitable ones usually takes so much time while the demand for seamless digital banking is on the rise.

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4. The non-financial institution already filling the space

Several non-financial institutions offer services very similar to what digital banking is expected today. Social media platforms like Facebook, for example, have made it possible for users to send money directly to someone's bank account.

Because they are not restricted by any rules as seen with financial institutions, it is hard for these financial institutions to cope. To begin with, social media platforms, for example, have a large fan base.

5. Internal barriers

For banking to be fully digitized, it means that both the banking system and employees will have to undergo a cultural shift. However, it is good to know that unlike other businesses, banks have a unique way of departmentalization, and this greatly influences the level of technology to be used. While some department will benefit from a digital banking system, some departments will have to lay off some employees. Also, employee training may be required.

6. To buy or build the banking system

With the demand for digital banking on the high, some banks are desperate to take the leap and adopt digital banking. However, most banks are not quickly adopting digital banking because they don't know which kind of system will work correctly.

Opportunities available for banks in digital banking

Although digital banking is slowly taking shape, it's good to know that some banks have gone digital and are setting the pace for older banks. The opportunities available for banks in digital banking include;

I. More output more profits

There is no specific time when someone can want to deposit or withdraw from their bank accounts, let alone buying something online. Through digital banking, banks can offer round the 26X7 services to their customers, maximizing profits.

II. More customers with time

It is without any doubt that everyone is going the digital way. Since the upcoming generations will be more digitized, digital banking is predicted to be the peoples' favorite in the future.

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III. Mobile banking

You may take it lightly, but mobile banking is soon going to be the people's choice. That is because people today want to take their phones everywhere and use them to do everything. Mobile banking, therefore, presents an excellent opportunity for banks to generate more revenues from transactions.

IV. More loans, more interests

Banks like it when people borrow loans. That is why many financial institutions are competing to give out low-interest rates because, in the end, they will still make profits. Digital banking will make it easier for customers to access loans online, and this will increase the number of borrowers.

V. Fastened services

Money needs to move around fast in any business setting. That is why having to spend hours in long ques in the bank to transfer money is a disadvantage to both customers and financial institution. Through digital banking, one will not even have to leave their bed to transfer cash or complete payments.

VI. Better market predictions

Digital banking is backed up with an accurate data collection mechanism. Data is i8mportant for any organization because it can be used to predict the market and offer better services to the customers.

CONCLUSION

Digital banking is promising a better banking experience for both customers and banks. However, it is without any doubt that the future banker is a digital banker. Today the AI for banking is already being implemented by other banks, and the results are impressive for some. In the future, bank quos will be history, and that should be a heads up for any bank or financial institution wanting to dominate the market in the future.

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