

Digital Banking Current position in India, Issues and Challenges

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Abstract

The Covid 19 pandemic came as a shock to the whole world. Lockdown was imposed across the nation, The wheels of the entire economy came to a scrunching halt. It spelt the doom of many industries especially the banking sector.

Research reveals that this has actually worked as a boon in disguise for the banking sector. The digital India campaign picked up like never before. Millions of people had no option but to use the digital technology to meet their financial requirements during lockdown. This not only meant a more active number of customers using digital banking, greater coverage and better-quality service by banks, but also boosted the banking industry like never before.

However, issues and challenges were not far behind, the new opportunity brought with it several challenges and issues. This research paper tries to focus on the increased use of banking and the impetus to banking sector post pandemic and how the pandemic has actually increased the scope for banking activities and the banking sector in general along with issues and challenges faced by banks.

Introduction

The pandemic induced lockdown and halt of all economic activities was seen as doom of the economy. But this has induced banks and customers alike to turn to digital banking. Traditional banks have been replaced by phone banking and internet banking giving the customer a hyper-personalised experience. Surveys observed rapid increase in customer reluctance to visit branches and they are inclined to try out newer tools to meet their banking needs. Banks have been closing branches globally at an unprecedented scale. A large number of people staying at home are turning to digital channels, both online and mobile, to fulfil most of their banking requirements. As a result, traditional visits to branches and face-to-face interactions with bank staff have reduced.

Objectives of the study

The objectives of the study are as below

1. To see if number of customers using digital banking has increased post pandemic. This involves analysis of the pre and post banking figures.
2. To see if technology has improved volume and quality of banking services in India
- 3 To see if the new banking experience is preferred by customers as against traditional banking.

4 To understand issues and challenges faced by banks

Data Collection and Analysis

Data collection has been through secondary sources mainly from bank websites and newspaper articles and journals. Analysis of the data has been done through percentage analysis method.

Shortcomings of the study

Though the data has been collected through authentic sources there is no sure shot method to pin point that the increase in number of customers using digital banking has been due to the pandemic. Also, there is nothing to substantiate the statement that digital banking has picked up due to lockdown.

Findings of the study

1. Overall internet/mobile banking transactions in India

Year	Volume (in Lakhs)	Value (in crores)	%growth in volume
2021	1344959	44750	68.87
2020	796402	22713	49.5
2019	532731	12525	124.87
2018	236900	5270	----

Source Reserve bank of India bulletin 2021

(Percentage growth in volume is in comparison to volume of previous year)

Digital Payments across India (in billion)

Year	Value	% growth
2022	71.95	64.49
2021	43.74	28.64
2020	34	46
2019	23.26	59
2018	14.59	---

Growth of online banking users in India

Year	Million users	% growth
2022	249	19.7%
2021	208	20.23
2020	173	21.83
2019	142	22.41
2018	116	----

Additionally, research by Economic Times reveals that

51% of Indians use online banking channels **26%** of Indian customers prefer to access services via their bank's website, and the same number would prefer to use a mobile app rather than talk to a human agent. The internet penetration rate in India was 47% of total population in 2022 Internet users in India increased by 5.4% in 2022 (Source <https://datareportal.com/reports/digital-2022>) 93% of respondents are satisfied by the level of banking service they receive

22% say they have never faced any issue

Source: <https://economictimes.indiatimes.com/wealth/personal-finance-news/what-percentage-of-indians-use-online-banking-channels-heres-a-survey->

Challenges and Issues faced by banks

Subscriber base for digital transactions has improved rapidly owing to Digital India campaign; higher availability of bandwidth, cheaper data plans and competitive pricing for smart phones; Smart phones will spiral Smarter banking.

1. 'DISC' consumer

Customers that are digitally native, intelligent, social and connected (DISC) the best of services and convenience without wanting to bear additional costs. This entails banks losing customer base due to competition from other banks.

2. Best of both worlds

Customers increasingly seek the best of both worlds option. They use digital banking for small value transactions but also use the physical facility of a bank for example enhancing their credit card limits and or discussing home loan options.

New age banking involves not only providing an up-to-date digital platform but at the same time cost of maintaining a physical bank as well thus increasing costs for the bank

Unsurprisingly enough, the proliferation of digital banking technology has not diminished the number of (or significance that) clients place on transacting inside an actual bank.

In fact, per RBI data tracking data , the volume of transactions in digital banking throws up interesting trends: Customers visiting branches for activities continues to be on the higher side but for higher amounts. At the same time, small value transactions continue to flourish through digital wallets, internet banking etc.

3. Transformation Journey

Winning digitally loyal customers is a challenge. Providing new products and a personalised banking experience entails costs. The question a bank faces in such a transformation journey is not the 'how' or 'what' but why?

5. Cyber security

One of the largest challenges for digital banking transformation initiatives has and will remain the ability to solve security issues at scale.

Today's banking environments heavily draw upon collaborative ecosystems – meaning, hundreds and thousands of networked computers and other connected devices. Add Social, Cloud, Mobile and other channels into the continuously evolving mix and we are talking about managing financial vulnerabilities on a never-before seen scale.

In fact, today it is the digital banking transformation that powers the Cyber Security Industry to continually create stronger security and compliance solutions capable to scale on demand. No matter how the cyber security and banking technologies commingle tomorrow, the number of digital transactions will be influenced by how secure (and how alone) we feel in our 'digital homes' today.

6 Risk of digital lending

Digitisation has also influenced lending. NBFC s have entered the business along with banks by the end of 2020 loan disbursement went up by nearly 12 times, though private banks and NBFCs play a major role accounting for 55 percent and 30 percent of loans disbursed through digital channels, respectively, in 2020.

The major challenge is the lack of a regulatory framework for the disbursement of digital loans. Lack of safeguarding mechanisms against fraudulent lending platforms and lack of adequate monitoring mechanisms. The onset of digitization and transformation in lending has also led to a spurt in digital lending applications sponsored by non-financial services entities or non-regulated entities resulting in unethical business practices, mis-selling cybersecurity and data privacy concerns. Some of the key challenges of the current digital lending landscape include:

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