

DIGITAL BANKING CHALLENGES AND OPPORTUNITIES IN INDIA

Dr.P.Revathi

Head and Assistant Professor (SG), Commerce Banking and Insurance, Dr.N.G.P. Arts and Science College (Autonomous), Coimbatore-48, Tamil Nadu, India

ABSTRACT

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Online banking is one of the most significant developments for the banking industry in its long history. However, despite the many benefits that online banking provides to customers, there are also a number of major concerns and challenges for marketers in the online banking sector.

Traditional banking habits, security, technical issues, transaction difficulties, and small marketing budgets are all major challenges that online banking marketers will have to reconcile if they are to succeed in this field. However, demand for this industry continues to be very strong. So it is likely that online banks will only grow more advanced and successful as they strive to resolve their marketing challenges.

However, despite the benefits of online banking, there is also a number of distinct issues and challenges in the online banking sector. These are highly significant both for banks that offer online banking, but also for their customers, who depend on the banks to operate effectively. Online banking marketers need to know these challenges so that they can efficiently navigate them.

KEYWORDS: *E- Banking, RTGS, NEFT, Plastic Money*

INTRODUCTION

The banking sector has been the backbone of every economy whether developed or emerging. It plans and implements the economic reforms. Any change in this sector through the adoption of technology will have an extensive impact on an economy's growth. Nowadays, banks are seeking unconventional ways to provide and differentiate amongst their diverse services. Both corporate as well as retail customers are no longer willing to queue in banks, or wait on the phone, for the basic banking services. They require and expect a facility to conduct their banking activities at any time and place. Plastic money (Credit Cards, Debit Cards and Smart Cards); internet banking including electronic payment services, online investments, online trading accounts, electronic fund transfer and clearing services, branch networking; telephone banking; mobile applications and wallet are some of the recent products and services acting as the drivers to the growth of banking sector.

The Reserve Bank's endeavour to build a less-cash society continued with the large scale adoption of digital modes of payments in the country. In an era of rising means of

electronic payment systems, the Bank focused its efforts on safety and security of digital transactions. Accordingly, the Bank worked towards building up a robust and resilient technology infrastructure which ensured smooth functioning of the critical and systemically important payment and settlement systems in the country.

The Department of Payment and Settlement Systems (DPSS) continued to work on the strategic initiatives set in the 'Payment and Settlement Systems in India: Vision 2018' document. This resulted in achievement of the expected outcomes laid out in the vision through: (i) decrease in the share of paper-based clearing instruments; (ii) consistent growth in individual segments of retail electronic payment systems, viz., National Electronic Funds Transfer (NEFT), Immediate Payment Service (IMPS), card transactions and mobile banking; (iii) increase in registered customer base for mobile banking; and (iv) up scaling of the acceptance infrastructure for digital payments. Further, with the rapid adoption of digital payments across the country, aided by the introduction of innovative products in the payment space, the Bank focused on strengthening infrastructure and ensuring safety and security of digital transactions.

The decision for banks to add more digital solutions at all operational levels and will have a major impact on their financial stability. While not all banks are in a position to make quick changes to IT infrastructure or the architecture on top of it, banks aiming to be disrupters can move toward broad end-to-end automation can do so over about a six-month time frame.

GROWTH IN PAYMENT SYSTEMS

The payment and settlement systems recorded robust growth in 2017-18, with volume and value growing at 44.6 per cent and 11.9 per cent, respectively, on top of an increase of 56.0 per cent and 24.8 per cent, respectively, in 2016-17. The share of electronic transactions in the total volume of retail payments increased to 92.6 per cent in 2017-18, up from 88.9 per cent in the previous year with a corresponding reduction in the share of paper based clearing instruments from 11.1 per cent in 2016-17 to 7.4 per cent in 2017-18.

ELECTRONIC PAYMENTS

Amongst the electronic modes of payments, the Real Time Gross Settlement (RTGS) system handled 124 million transactions valued at ¹ 1,167 trillion in 2017-18, up from

108 million transactions valued at ¹ 982 trillion in the previous year. At the end of March 2018, the RTGS facility was available through 1,37,924 branches of 194 banks. The NEFT system handled 1.9 billion transactions valued at around ¹ 172 trillion in 2017-18, up from 1.6 billion transactions valued at ¹ 120 trillion in the previous year, registering a growth of 20 per cent in terms of volume and 43.5 per cent in terms of value. At the end of March 2018, the NEFT facility was available through 1,40,339 branches of 192 banks, in addition to a large number of business correspondent (BC) outlets.

During 2017-18, the number of transactions carried out through credit cards and debit cards was 1.4 billion and 3.3 billion, respectively. Prepaid payment instruments (PPIs) recorded a volume of about 3.5 billion transactions, valued at ¹ 1,416 billion. Mobile banking services witnessed a growth of 92 per cent and 13 per cent in volume and value terms, respectively, while the number of registered customers rose by 54 per cent to 251 million at end-March 2018 from 163 million at end-March 2017.

Table .1 Payment System Indicators – Annual Turnover

Item	Volume (million)			Value (? billion)		
	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18
1	2	3	4	5	6	7
Systemically Important Financial Market Infrastructures (SIFMIs)						
1. RTGS	98.3	107.8	124.4	8,24,578	9,81,904	11,67,125
Total Financial Markets Clearing (2+3+4)	3.1	3.7	3.5	8,07,370	10,56,173	10,74,802
2. CBLO	0.2	0.2	0.2	1,78,335	2,29,528	2,83,308
3. Government Securities Clearing	1.0	1.5	1.1	2,69,778	4,04,389	3,70,364
4. Forex Clearing	1.9	1.9	2.2	3,59,257	4,22,256	4,21,131
Total SIFMIs (1 to 4)	101.4	111.5	127.9	16,31,948	20,38,077	22,41,927
Retail Payments						
Total Paper Clearing (5+6)	1,096.4	1,206.7	1,170.6	81,861	80,958	81,893
5. CTS	958.4	1,111.9	1,138.0	69,889	74,035	79,451
6. Non-MICR Clearing	138.0	94.8	32.6	11,972	6,923	2,442
Total Retail Electronic Clearing (7+8+9+10+11+12)	3,141.5	4,222.9	6,382.4	91,408	1,32,324	1,93,112
7. ECS DR	224.8	8.8	1.5	1,652	39	10
8. ECS CR	39.0	10.1	6.1	1,059	144	115
9. NEFT	1,252.9	1,622.1	1,946.4	83,273	1,20,040	1,72,229
10. IMPS	220.8	506.7	1,009.8	1,622	4,116	8,925
11. Unified Payment Interface	-	17.9	915.2	-	69	1,098
12. National Automated Clearing House (NACH)	1,404.1	2,057.3	2,503.3	3,802	7,916	10,736
Total Card Payments (13+14+15)	2,707.3	5,450.1	8,207.6	4,483	7,421	10,607
13. Credit Cards	785.7	1,087.1	1,405.2	2,407	3,284	4,590
14. Debit Cards	1,173.6	2,399.3	3,343.4	1,589	3,299	4,601
15. Prepaid Payment Instruments (PPIs)	748.0	1,963.7	3,459.0	488	838	1,416
Total Retail Payments (5 to 15)	6,945.2	10,879.7	15,760.6	1,77,752	2,20,703	2,85,612
Grand Total (1 to 15)	7,046.6	10,991.2	15,888.5	18,09,701	22,58,780	25,27,539

Source: Annual Reports of Reserve Bank of India

ISSUES AND CHALLENGES IN THE ONLINE BANKING SECTOR

The CPMI has released a report titled, 'Reducing the Risk of Wholesale Payments Fraud Related to Endpoint Security' in which it has stressed the need for a holistic approach to counter the risk of frauds. The report highlighted the requirement for a coordinated effort to ensure the safety of wholesale payments that was essential due to the interconnectedness of the financial networks.

The elements of the strategy to reduce risks in wholesale payments fraud relating to endpoint security were identified as under:

- Element 1: Identify and understand the range of risks related to endpoint security that are faced by the participants individually and collectively.
- Element 2: Establish endpoint security requirements for its participants for fraud prevention, detection and response.
- Element 3: Promote adherence to the respective endpoint security requirements.
- Element 4: Provide and use information and tools to improve fraud prevention and detection.
- Element 5: Procedures and practices should be in place to respond to actual or suspected fraud in a timely manner.
- Element 6: Support ongoing education, awareness and information-sharing.
- Element 7: Monitor evolving endpoint security risks and risk controls, review and update the endpoint security requirements, procedures, practices and resources.

Traditional Banking Habits

Despite the benefits of online banking, 49 percent of American adults do not participate in it at all. This happens mainly because traditional banking is what many people are used to and it can take time for them to break habits. So, online banking marketers should focus on ways to convince traditional banking users to start using online banking services.

These marketing efforts should specifically highlight the numerous benefits of online banking. They need to show people how online banking can solve traditional banking problems more efficiently (having to actually go to bank branches, higher fees, etc.)

Security

Security is one of the most significant challenges for online banking marketers. This is because, in the past, if a robber was going to steal a person's bank savings, he or she would have to break into the bank vault, and make a daring escape with the money. This was an extremely difficult prospect and involved a lot of danger and risk.

With online banking, cyber criminals simply need to ascertain certain personal information to break into a person's account and steal their money. It can be done anonymously, and involves significantly less physical danger than in the past.

In fact, in the U.K. in 2015, roughly 130 million British pounds were stolen from online bank accounts through fraud. So, security is still a major issue for online banks, and their customers. Marketing professionals in the online banking sector need to focus on demonstrating and explaining the security of online banks to overcome this challenge.

Transaction Difficulty

It can be significantly more difficult and time consuming to deposit or withdraw money from an online bank. Not only do online banks often have fewer ATM's than their traditional counterparts, but it also can simply take longer amounts of time for deposits to be processed and put into a bank account.

For example, it takes roughly 3-5 days for deposits to show up in accounts for PayPal, one of the largest online banks. This is an issue that online banking marketers will most likely struggle with, until online banks speed up their transaction times.

Technical Issues

Because online banks rely so heavily on their online platforms, this means that they can generate substantial losses if their systems crash or if there are bugs in their code. A single technical issue that causes a bank to be down for a day could cost the bank millions in losses.

It can also wreak havoc for the bank customers who may not be able to make payments or conduct transactions during the time that the site is down. 54 percent of consumers now use a mobile banking app. So, it is the key not just for banks to have their online platforms running smoothly, but also, their mobile apps.

A loss of funds or data due to a crash is something that can be very worrisome for bank customers. So, marketers should prioritize alleviating this worry by explaining how account funds will not be lost if technical issues occur.

Small Budgets

Many startups have to operate on shoestring marketing budgets before they grow to a larger size. Obviously this can be a major challenge. If your marketing budget is small, then you need to focus on the priority expenses.

The inbound marketing strategies of creating a search engine optimized website, making accounts for all of the biggest social media networks (Facebook, LinkedIn, Twitter, etc) and starting a blog should all be prioritized.

On your website, you should also have an option to allow visitors to join your mailing list. Furthermore, a good PPC campaign can be a very good investment for your company. In fact, businesses make an average of \$3 on every \$1.60 they spend on AdWords.

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 centered 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 uber-isation 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, Face book, 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 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 IN THE ONLINE BANKING SECTOR

DISC Customers

The benefits of the DISC customers are 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

In Face book has 2.2 billion monthly active customers, the 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. Organizations that are able to identify this and organize 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:

- The largest penetration of mobile infrastructure than ever before.
- Government and regulator 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.
- Online banking services provided in terms of ATMs, Debit Cards, Credit cards, Phone Banking, Mobile Banking, Internet Banking etc.. One third of the customers are using Debit Cards when compared to all other services.

CONCLUSION

Banking and financial services have always been extremely formal in nature, and for good reason. They say "money makes the world go round", and even if the line was intended to be cynical, it remains true for at least all the businesses. Things are, however, rapidly transforming in the digital era. It is as important that the banks remain as transparent, as their customers remain authentic. The main objective behind integrating banking services with technology is, undoubtedly, convenience. Technology has now become familiar to most individuals, to an extent that it influences their lifestyle. It, then, becomes vital for businesses to distinguish themselves in the digital space with unique offerings. Security remains part of the core services that banks can offer, and for this reason, the interfaces with simplicity work best. More customers are acclimatizing to mobile platforms, and more users are using online platforms at a much younger age. Due to these reasons, there is an undoubted power that can be leveraged through digital channels. In order to tap into the power of digitization, however, there are a number of challenges that need to be overcome.

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