

## DIGITAL BANKING: NEW DEVELOPMENTS IN DIGITAL BANKING

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### ABSTRACT

*The digital banking industry is undergoing tremendous change - Digital Banking entrails technology impacting business view, business plan and organisation, reimagining business from the new technology view etc., digital being the centre to start from as also leverage. This phenomenon is reveals revealing itself (as it has happened in history earlier also) in the work space and business pace, leading to fundamental changes with widespread effects. Branch or office organisations are changed, people's job routines and roles change, and we may end up with reorganised work methods, work places (like clearing processing centres or account opening processing centres away from branch). Working roles etc., with computerisation. Extent of such changes depend on the bank managements abilities, scope of technology in place, and human preferences of adoption of changes. These are still, realigning work around the systems. The paper highlights the brief idea of some new developments and trends, that are of interest and surely useful to Digital Banking. It also includes the concept of digital banking and various types of products/channels available as choice while performing banking transactions and its benefits to the customers and banks.*

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**Keywords:** Digital Banking, Concepts, Types and Key Benefits.

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### Introduction

For evaluation of new development in digital banking we have mainly processed the statistical data and information from various sources like RBI, nationalized banks, private banks. Appropriate methods and techniques are be used in the analysis of information in relation to present new developments in digital banking.

### Objectives of the Study

The objectives of this paper are as under:

- To examine the current scenario of new development in digital banking.
- To highlights the need for digital channels.
- To explore the banking.
- To services offered based on digital technology.
- To suggest information security practices and methods to contain and manage risks of data, i.e., risk of the data confidentiality, integrity and availability getting compromised.
- To provide understanding of customer preferences, behaviour etc.
- To suggest various measures for digital banking.

### Hypothesis

Following hypothesis is made for this research study:

- Digital banking has increased banking services offered based on digital technology.
- New development in digital banking should provide confidentiality, integrity and availability.
- Digital banking has aided by understanding of customer preferences, behaviour etc.

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### **Introduction to Digital Banking**

The world, today, is fast paced and financial processes run on the cutting edge of applied technologies. While on the one hand, large volumes of money are required to be moved instantaneously across the globe, or transactions are desired in physical world without physical cash, on the other hand, customers look towards completing their banking and other financial operations from the comfort of their homes and with maximum possible convenience. This has led to the advent, rise and explosion of alternate delivery channels, which are quickly overtaking traditional banking channels like Brick-and-Mortar (i.e., branch based) banking example of alternate delivery channels are ATMs, Debit/Credit/Prepaid cards, Point of Sale (POS) terminals, internet and mobile banking, etc. Also, advanced electronic payment systems like RTGS and NEFT have quickened and interlinked transactions across organisations and individual accounts. Development and use of Alternate Delivery channels is a major contributor of digital banking. Digital banking is an evolving concept in the area of electronic banking, of using new innovative technologies and banking tools. It aims to leverage strengths of digital (i.e., computer based) technologies, to bind and put together the standard online/mobile/electronic banking service to enrich and enhance value of the banking service rendered and user experience. Customer centricity is a major trend in service industries now, and to do this in banking, banks need to digitally capture customer actions in the banking application, as also market data, and then process that huge data to yield meaningful insight into customer behaviour and needs, and create service and products to meet them, market them where exactly customer expects them, etc. using and leveraging digital techniques for this entire gamut is all what digital banking is about. In India, the banking sector, in general, is graduating to such stages, as the building block of this tech-based delivery is going through a high growth phase. In common usage, these tech-based deliveries themselves are loosely mentioned as digital banking also. In this modern age of technology, banking business will be very difficult without digitisation. If bank's services to its customers cannot reach the desired level, no bank will be able to survive for long in this competitive market without adopting digital banking. Now-a-days, inhabitants staying at the farthest corners of the world can be connected with the help of modern processes electronic banking services such as money transfers, statements, enquiries, deposits creation, online trading settlements, for extras actions, fees and taxes payments etc., are all made possible without visiting a bank. Banks, by examining the customer portfolio and transaction habits etc., quite often initiate payment reminders, analysis of investments, advisories on markets and many other financial conveniences. These services are the add-ons based on connectivity, software and business value of customer. These can happen without physical travel, or loss of time, across accounts in various banks of same or different customers. Digital banking is more than just going paperless. Besides reducing the paper-based transactions, the primary focus is on enhancing the product suite with value added service and achieving integrated channels experience for the customer. Banking operations have transformed from manual ledgers to Advanced Ledger Posting Machines (ALPMs) to Core Banking System (CBS) during last two decades of the 20th century and during the initial phase of 21st century. CBS automated banking operations, whether, the customer has option to do same transaction, say payment, over multiple channels viz. cheque issuance/NEFT/IMPS/card-based payment, fund transfer through UPI/BHIM/Wallets etc. using either bank branch or internet or mobile.

### **Need for Digital Channels**

Indian economy is the world's sixth-largest economy by nominal GDP and the third-largest by Purchasing Power Parity (PPP). The country ranks 175th in per capita GDP (nominal) with \$ 2,199 and 126th in per capital GDP (PPP) with \$ 8,484. According to IMF World Economic Outlook (April 2019). India is a member of the G-20, Bricks and a developing economy that is among the top 20 global traders, according to WTO. According to IMF, Indian economy is likely to expand at 6.9% in 2019, picking up to 7% in 2020, and the demand for banking services, especially digital payment services, is expected to be strong. India's population is about 1354 million (worldometers.com March 2018) and with approximately 1,40,000 (1,49,151 functional offices of all banks, March 2018 RBI statistics) bank branches, the population per branch is around 9700. Similarly, population to serve per ATM, with 2,06,780 (July 2019-RBI) ATMs in the country, is around 6548. It seems that, both, brick and mortar channels (branches) and ATM, are under pressure for banking services not only from the operations point of view, but from the business point of view, as well. Besides this, cost of performing a transaction at bank branch level is quite high as compared to ATM; the cost is further reduced when customer opts to transact at Merchant Point of Sale (PoS) or E-commerce or mobile banking. Incidentally, we have 42,52,850 banks linked PoS, (RBI, July 2019) and considering the population this seems small. The digital payment transactions turnover vis-a-vis GDP (at market prices current price) is expected to further increase to 10.37 in 2019,

12.29 in 2020 and 14.80 in 2021 (according to RBI statistics). Usage of debit cards at POS transactions is expected to be at least 44% of total debit card transactions (at POS + ATM). In value terms it is 15.2% in 2018-19 (5.2 per cent in 2014-15) which is expected to be 22% by end 2021 (as per RBI statistics) Adoption of digital channels can help banks to cut costs, deepen customer satisfaction and loyalty, and drive long term relationship and profitability.

### **Customer Preferences for Digital Banking**

Leading consultancy research reports reveal that digital banking is on the threshold of overtaking traditional 'brick and mortar' banking as the preferred delivery channels. There are evidences that if a bank is not responding to the imperatives of this change, as quickly as it should, it may actually be missing the bus. The reports name concluded that customers do not mind having to pay a little extra for digital banking services, as it offers them value and convenience.

Recent developments of new digital features in banking service delivery, often utilise:

- Improvements in user-experience design through interactive interfaces that blur the boundaries between the real and the virtual thereby bringing data to life through rich presentations.
- The power to access the internet from anywhere.
- Tremendous advances in analytical tools which are able to decipher and work out customer profiles.
- New technologies which enable end-to-end communication between the customer and the Bank.

Relationship in banking is a very important aspect which ties a customer to the bank. A bank which is able to suitably provide the requirements of customers in a desired content, functionality, platform, speed and ease in the initial interactions is likely to be the bank of choice for customers, when they are planning to buy another financial product. Incidentally, it is seen that while the elderly population do not change their banker easily, they refer for every need to their existing bank. First, the younger generation display less loyalty to any bank, and check and compare details for different types of service needs separately. So, customer retention for banks has become tougher.

The Indian demographic distribution is quite different than the above groupings. The estimated population distribution is (in mid-2018) roughly 0-14 years: 28.8%, 15.24 years: 18.4%, 25.54 years: 39.9%, 55.64 years: 7.3%, 65 years and over: 5.5% ([www.livepopulation.com](http://www.livepopulation.com)) Moreover, the distribution of purchasing power is further skewed. Based on this, and cultural factors, banks in India need to develop suitable digital banking products in their markets. However, consequent upon the post 1991 open economy and IT capacity flare up since late 1990s and related other factors, the income and job opening that followed have created similar groupings. The most deciding age group. Perhaps lies around 25-40 years group pushing new technologies in banking redesign. The 55-65 group may be the significant one for the classical business delivery models, but they move to evolving practices, a bit slowly. Banks need serve both groups.

### **Consumer Expectations are Evolving with Digitalisation**

Customers, today, look for high standards of digital communication, sleek page designs, rich functionalities, rapid results for searches and interactive features. Digital banking permits the customer to generate his/her own accounts statements from anywhere on 24x7 basis, instead of waiting for monthly statement by postal mail. It is important that banks understand the logic of customer thinking in deciding where to trust their money and in choosing their primary banking relationship. This has long term influence not just on the costumer, but can also have strong influence on their friends and those they communicate with in their daily lines.

There are a number of aspects that banks need to reckon for offering robust digital services. These are:

- Customer attitudes and behaviour are evolving rapidly.
- Digital is preferred world-wide.
- Digital technology is, itself, changing and every advance in technology throws open new capabilities for enhancing customer experience.
- Technology reduces the cost of operations and servicing for the bank, and the reduction can, thereby, be passed on to the customer.
- Technology also reduces the delivery time of the products/ services.
- Digital channel is more customer friendly in terms of saving their efforts, cost and time.

- However, computerised operations bring in their associated risks, and all products, service and offerings need be secure, so that information logs, error and intended access does not happen. With more digital contents and platforms, banks need to implement information security measures as necessary.
- The customer education and customer communication for technology-based services will be different in content and model of delivery, compared to the traditional practices. Banks need to master these also for effective use of their offerings.

### **Technology Lays the Foundation for User-Friendliness and Customer Interaction**

Digital banking relationship needs to move beyond basic internet banking to a 360-degree interaction. KYC or 'Know Your Customer' in the digital era is something beyond the regulatory compliances and actually is trying to determine the complete customer profile and how the customer wants to interact with the bank. Tools such as data mining, analytics, etc. are being used to map the behaviour, preferences and attitudes of customers. With customers resorting more and more to digital channels for communications, banks have a new opportunity to present themselves in fresh light. It is necessary for banks to understand and to appreciate the evolving behavioural patterns, in use of bank accounts as also beyond, viz., purchasing lifestyle goods online, resorting to e-commerce etc. Getting it correct can reap rich rewards for banks in the long-term, whilst getting it wrong can potentially lead to a lost generation of customers. It is very important to note here that the formulation of a digital banking service needs to take cognizance of the customer behaviour and needs based on his/her habits and general practices in the society. A bank's presence in such platform, look and feel of the offerings, navigability of the options offered for transaction, stability and security of its operations from there will be found helpful for that customer, if the bank's messages and navigations there are all aligned to such environment and user behavioural aspects. Understanding the customer and aligning and empowering services are the basic steps at the backend of digital banking.

### **Security is a Cornerstone of Digital Banking**

Security extends from the bank's hardware to the user's device whether a PC/Mac at home, a tablet or the newest smartphone. In all cases, digital banking must employ strong and secure technologies which protect the communication, user information and the bank's IT infrastructure. Banks should address weaknesses in security, connect security interests with those of business interests and think beyond regulatory compliance. The most common issues that banks need to address to achieve effective and proactive security in their digital banking segments are:

- Information security practices and controls in developments, operations and delivery of services, engaging business stakeholders in the security dialogues.
- Aligning business compulsions of service/usage, and the ever-expanding horizon of the information security threats.
- Governing the enterprise – Establishing appropriate frame works, policies and controls to protect IT environments and practice info-security.
- Keeping pace with persistent threats – Adopting a proactive and dynamic approach including intelligence, analytics and tie-up with specialized security service providers to deal with the widening array of possible failures/attacks.

### **Information Security**

All actions and values pertaining to the bank, customer, vendors, like customer data, transactions, business data etc. are recorded electronically in the bank's computer systems. Information security is the domain of knowledge and practices to keep this information secure. Information security (IS) is designed to protect the confidentiality, integrity and availability of computer system data from those with malicious intentions. Confidentiality, integrity and availability. The confidentiality, Integrity and Availability should be observed when data is under process, or at rest (in disk or back up) or in motion (being transmitted), to keep the information secured.

### **Ombudsman Scheme for Digital Transaction, 2019**

In the interest of the public and in the interest of conduct of business relating to payment systems, the Reserve Bank of India felt necessary to provide a mechanism of ombudsman for redressal of complaints against deficiency in services related to digital transactions. Hence, RBI has come up with the ombudsman scheme for Digital Transactions 2019, refer RBI notification Ref.CEPD.PRS.NO.3370/13.01.010/2018-29 dated January 31,2019.

**Conclusion**

This paper presents an overview new development in digital banking and its needs and explore the banking services offered based on digital technology. It also provides understanding of customer preferences and behaviour etc. and suggest various measures for digital banking. Digital communication is pervasive from mobile phones to tablet computers, we are immersed in digital. The digital banking offering should be based on a solid understanding of digital consumer behaviour as well as consideration of how to build and extend bank brand value for digital consumers. Security is a cornerstone of digital banking. Digital banking is an evolving concept in the area of electronic banking, of using new innovation technologies and banking tools. Digital banking strengths of digital technologies, to bind and put together the standard online/mobile electronic banking services to enrich and enhance value of the banking service rendered and user experience. Banking operations have transformed from Manual Ledgers to Advanced Ledger Posting Machines (ALPMs) to core Banking system (CBS) during last two decades of the 20<sup>th</sup> century and during the initial phase of 21<sup>st</sup> century. Digital banking provides core banking system, where the customer has option to do same transaction, say payment, over multiple channels viz. Cheque issuance/NEFT/IMPS/Card based payment, fund transfer through UPI/BHIM/Wallets etc. Using either bank branch or internet or mobile.

**Suggestions**

Following suggestions given for development of digital banking's:

- Digital banking relationship needs to move beyond basic internet banking to a 360-degree interaction.
- KYC or 'Know your customer' in the digital era is something beyond the regulatory compliances and actually is trying to determine the complete customer profile and how the customer wants to interact with the bank.
- Tool's such as data mining, analytics etc are being used to map the behaviour, preferences and attitudes of customers.
- It is necessary for banks to understand and to appreciate the evolving behavioural patterns, in use of bank accounts as also beyond, viz., purchasing life style goods online, resorting to e-commerce etc.
- Information security is designed to protect the confidentiality, integrity and availability of computer system data from those with malicious intentions.
- Understand the customer preferences and behaviours etc.
- Good relationship with their customer and relationship in banking is a very important aspect which ties a customer to the bank.

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