

RETAIL BANKING INDUSTRY IN THE ERA OF DIGITALIZATION

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ABSTRACT

This article deals with the problem of the crucial challenges facing the modern banking industry. In this context, the aim of the article is to show the crucial changes in the micro (internal) and the macro (external) environment of financial institutions and to identify the main challenges for banks in the near future. This paper examines the following research questions: (1) What factors and trends are the most challenging for the modern banking industry? (2) What measures do banks have to take in order to meet both their new clients' expectations and increasing Fin-Tech competition? The basic research method used in the study is a review and critical analysis of the subject literature and the survey method. In this paper, I have used research, information and insights contained within reports, papers, and interviews referring to the banks' future. However with the changing dynamics of banking business also brings new kind of risk exposure. In this article, an attempt has been made to identify the general sentiments, major challenges and opportunities for the Indian banking sector. This research attempts a look at some such issues and challenges & provides insight into the impact of the driving forces, behind innovation, in Indian banks as well as innovative financial inclusion.

KEYWORDS: *Innovation, Financial Inclusion, Customer Relationship Management, Mobile Banking.*

Introduction

The Indian banking system has been a complete transformation during the last two decades, in sync with the progress made by the real economy. Almost every aspect of banking operation has been significant change during this period as banks sought to reinvent themselves in an attempt to retain their prominent position in the financial system. Indian banks need to improve both, allocational and operational efficiency, so that the financial intermediation function is effectively performed. This would include reengineering of all critical products and processes by leveraging on innovative technology-based solutions, while retaining a strong customer-centric focus. Since, foreign banks are playing in Indian market, the number of services offered has increased and banks have laid emphasis on meeting the customer expectations. Now, the existing situation has created various challenges and opportunity for Indian Commercial Banks. In order to encounter the general scenario of banking industry, we need to understand the challenges and opportunities lying with banking industry of India. In this context, I would like to highlight some important aspects of consumer protection and risk management that banks need to imbibe in their business processes:

The business operations of banks should be customer-centric in nature. This should be reflected in all aspects of banking operations including creation of customized products and services, pricing of services, delivery channels, etc. The ability to manage NPAs is important in order to preserve the strength of bank balance sheets and to retain the appetite to take on good risks. An attitude of complete risk aversion would not be appropriate as banks are in the business of taking risks, but with adequate safeguards. Banks need to focus on leveraging technology to create new business models and delivery channels that are customized to the needs of the targeted population. Technology has the potential to act as a force multiplier in our financial inclusion efforts, provided it is implemented in a planned manner. Banks need to identify the causes for the low transaction rates and urgently address them in order to be

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successful, sustainable and scalable, financial inclusion should necessarily be commercially viable for everybody including the bank, the BC and the technology provider. However, the pricing should not result in exploitation of the customers. As with the economy, the Indian banking system is also at a crossroads with multiple opportunities and challenges before it. We need to make the right choices now in order to ensure the future of the banking system as the key pillar upon which the economic prosperity of the country rests. Banks are the lifeline of any economy and it is the collective responsibility of all of us to ensure that we have a strong, resilient and inclusive banking system geared up to face all domestic and global challenges.

Innovative Approach

Indians by nature are very innovative in their approach to whatever they do. In fact, that's also reflected in some unusual demands from corporate clients. Banks are now more receptive to innovation in order to get ahead of the competition. That's one reason why banks in India are testing and trying out newer ways of servicing both retail as well as corporate customers.

- Focusing on innovation to retain and enhance competitive differentiation: According to Capgemini, new Fintech firms are causing threat to traditional financial institutions, in order to cope up with them proactive approach required to develop innovative offerings. The main reason behind this is the changing customer demographics and expectations.
- Change ways of transactions: Electronic payment services, Real Time Gross Settlement, electronic fund transfer, electronic clearing services, ATM's point of sale terminal, m-banking, these are some new ways that changes the way of banking practices.
- Financial inclusion, business growth and customer engagement: Urban India is good with Banking system but there has to emphasis more focus on rural Banking hence there is sizable portion of the population that is un-banked or say under-banked, needs financial awareness, with the help of Government Indian Banks are focusing on it to increase the business growth as well as to get participated each and every individual under banking system.
- Huge NPAs are great issues to be taken care of, according to Hindu, Indian Banking sector gross NPA stood at 7.6%, highest in past 12 years and has further risen to 11.6% by March, 2018. Lending to those that are not capable of revival, no due-diligence mostly by PSBs, corruption and such other economical issues like unemployment, natural calamities are main causes of rising NPAs in India.
- Near about 69% of Indian population resides in remote rural area and delivering financial services to them at affordable cost of such disadvantaged and low-income segment of society is currently the main challenges. According to 2008 report on Financial Inclusion by Dr. C. Rangrajan, over 73% of farmers were not having access to Banks. This situation improved to some extent by 2013. Further, the Government of the Day has taken extraordinary initiatives to improve this situation and accordingly the 'Jan Dhan Yojana' was announced. This unique Financial inclusion programme has led to opening of Bank accounts at a much faster pace but the operational issues particularly due to lack of knowledge and also awareness, are still obstructing the momentum.
- Using right technology way of transaction at right time for delivering quality services and maintaining the efficiency with standards is a great challenge for Indian Banking sector. Those who have implemented such technologies facing the issues of computer illiteracy, infrastructural issues, diversified technological needs of customers, coping up with technical regulatory framework, upgradation are main concerns.
- With advancement of technologies way of transaction changed, with use of internet over computer, mobile and social median ran into higher cyber risk. Data breach, lower safety to customer information leading to reduce trust in online transactions. So even though we are trying to achieve banking convenience its becoming impossible and still we are experiencing rush at banks for transaction.
- Information and communication technologies including the mobile phones and internet connectivity are the prime reason for expecting the reach of banking sector to the youth and rural habitation.

Information and Technology in Banking

The advances in information and telecommunication technologies (IT) in the past 25 years have had a profound impact on the nature of banking and in the way in that banks and financial institutions are organized. A study of the technological progress in the banking sector is important because banks play an important role in providing financing and mobilizing savings, especially in emerging markets as compared to mature markets, where such functions are performed by the well developed capital markets. Technological efficiency can result in lower transaction costs and increased revenues for banks. For instance, technology can allow banks to cross-market new and existing products to customers. The use of technology can improve/enhance systems for administrative control such as enabling better management of risk, which if disclosed in regulatory reports to supervisors and in annual reports to investors, can improve bank transparency and enable the banks to reduce their cost of capital. Hence, technology can be the key to differentiation, competitive edge, and institutional survival.

e-Financial Inclusion

To define e-Financial Inclusion, one could state as innovative applications of ICT for delivery of financial & payment services and adequate credit where needed, at an affordable cost to the vast section of disadvantaged and low-income groups, who currently are unbanked. The Government of the Day has given highest priority to the goal of achieving inclusive society as could be seen from the Schemes like, Direct Bank Transfer (DBT), Jan Dhan Yojana and aggressively promoting the online Banking. For any 'e-' to proliferate to rural areas, be it be e-learning, e-governance, e-health, agriculture and the like, the first thing is connectivity and any low-cost would mean "to get more deliverables (including financial services) out of the e-infrastructure already in existence or have been planned to be in place in very near future". Creation of new infrastructure costs money and the cost would need to be amortized over a period of time.

Moreover, e-Financial Inclusion prima-facie should be viewed as - money at the bottom of the pyramid and business models may be so designed to be profit-making in the long run or at least self-supporting. E-infrastructure of the Indian banks is rapidly expanding and the visible benefits of ICT in day-to-day banking are well known. Nevertheless, how much these are facilitating financial inclusion for unbanked or rural poor need to be analyzed. E-infrastructure of Mobile Network Operators (MNOs), has seen phenomenal growth in recent times. Total number of mobile phones in 2009 was 403 million which has grown to 730 Million by March, 2018. Out of these, around 26% do not have a bank account. Further under NeGP, there is a scheme for establishing 100000 + Common Service Centers (CSCs), primary in rural areas of the country. These Centers would be broadband internet enabled and would provide all government and private services at the doorstep of the citizen. The Scheme is being implemented in public private partnership. CSCs have significant potential to accelerate e-Financial Inclusion. In recent times, since growth of mobile phone has been phenomenal, and it has emerged as an ubiquitous convergent device (anybody, anytime, anywhere appliances), mobile banking & m-payment has attracted a lot of attention globally.

Info Manager

For trade services (exports or imports), you no longer have to call your banker or wait for the data (to be transmitted to your computer) as 'Info Manager', which is an internet-based trade reporting and enquiry tool, takes care of the reporting. You just need to log on to the net from any part of the world and upload your trade-related data from the bank.

Citibank

- **Webcam Banking:** You no longer have to go to meet a banker face to face to sort out your queries as Webcam Banking allows you to talk to your banker anytime anywhere. This technology, undergoing pilot testing, is very costly; so, the bank is working on making it economical. This product is ideally suited for Citi's most mature markets in the West.
- **Biometric ATM:** It's the simplest and most innovative way to reach out to people in the rural heartland. The biometric ATM allows rural folks to undertake self-service banking by using their fingerprints for identification purposes. This product can find application in countries like China where Citi is aggressively spreading its wings.

Deutsche Bank

- **Credit Card Basket:** You don't have to buy different cards to get the best value as the bank studies your spending pattern (travel, dining, etc) and provides a switching facility to half a dozen other schemes on a single card. This not only saves customers money by getting them the best deal but also saves them the trouble of carrying separate co-branded cards for travel, petrol or dining.
- **Payerid Solution:** If you have thousands of dealers and multiple operations across distant locations (like an HUL or an ITC), it becomes a Herculean task to dispatch goods. Payer ID enables companies to identify the paying parties without the need to maintain multiple bank accounts (of dealers or suppliers), thus the easy dispatch of goods takes place.

Where a mobile device is used to initiate, authorize and confirm an exchange of financial value in return for goods and services. Mobile devices may include mobile phones, PDAs, wireless tablets and any other device that connect to mobile telecommunication network and make it possible for payments to be made. The realization of mobile payments will make possible new and unforeseen ways of convenience and commerce. Unsuspected technological innovations are possible.

Challenges before Banking

- **Economic Challenges:** The rural population in India is spread across 600,000 villages, each with a low transaction value. Profitability can only be achieved by large volumes, requiring significant initiative from financial institutions. Unlike the very successful M-PESA of South Africa, whose model has been very successful due to the lack of alternative payments in South Africa, India does possess some infrastructure in the form of postal payments, reasonable transport and local governments. Therefore, any mobile banking must be inexpensive enough to be attractive for the end-customer over existing methods.
- **Demographic Challenges:** India has 18 official languages which are spoken across the country. The state governments also are dictated to correspond in their regional language for official purposes. Additionally, two-thirds of the population in India is illiterate, creating difficulties in deployment of mobile banking solutions. For a pan-Indian mobile banking solution, this will be cumbersome to overcome.
- **Security Issues in Mobile Banking:** Mobile banking has two zones, one is the handset held by the user and the other is the bank zone. Literature shows that possibility of security threat exists for transaction of payment using mobile device.

Recent findings from Find-A-Better-Bank indicate that 60% of consumers under age 34 consider mobile deposit to be a "must have" or "nice to have" feature. In fact, accountholders who use mobile deposit are less likely to change banking relationships than those who do not utilize the remote deposit capabilities. Banking in relationship business, and it's nearly impossible to have a relationship without some sort of person-to-person interaction.

- NPAs have become a grave concern for the banking sector in couple of years and impacted credit delivery of banks to a great extent.
- As per a survey, net NPAs amount to only 2.36 percent of the total loans in the banking system. However, if restructured assets are taken into account, stressed assets account will be 10.9 percent of the total loans in the system. As per the International Monetary Fund (IMF), around 37 percent of the total debt in India is at risk.
- India's largest lender State Bank of India (SBI) reported a massive 67 per cent fall in consolidated net profit at 1259.49 crore rupees in the third quarter of the 2015-16 financial year and classified loans worth 20692 crore rupees as having turned bad.
- As per an estimate, the cumulative gross NPAs of 24 listed public sector banks, including market leader SBI and its associates, stood at 393035 crore rupees as on 31 December 2015.

The Economic Survey 2015-16 also alarmed the policy makers about growing bad debts with the banks and their potential to disrupt the growth prospects in the future.

M.Dziewguc, M. Guzek and M. Olczak [2016] states that nowadays, we may undoubtedly observe a big redefinition of using financial services and its main catalyst is the smartphone. The year 2015 was critical for using mobile devices because, for the first time on a global scale, inquires sent to

Google from telephones and tablets overlook the ones sent from PCs. In order to meet new client expectations, banks shift their activity from physical channels towards digital/mobile channels. The crucial areas, which are accelerated by digitalization, constitute: customer experience, technological development and economic benefits. In order to effectively use these opportunities, banking institutions have to implement a digital business model, so they should "develop a clear strategy that optimizes processes and costs."

According to the study "Digital Business Transformation" [Wade 2015], 40% of today's leading companies will be displaced from their market position by a digital disruption in the next five years. Nowadays, clients expect the same level of digital experience from financial service providers as offered by companies such as Google, Amazon, Facebook or Apple, so customer centricity has become a main priority enabling to meet the needs of digital native clientele [PwC 2016, p.8]. The results of a global study of 500 senior banking executives by Cognizant, Marketforce and Pegasystems [2016] highlight that banks are aware of the necessity of changes in many areas of their activity. According to findings of this report, the challenge that all organizations face is that there is no single technology to which they must adapt.

Conclusion

Despite the current difficulties and challenges, financial innovation will continue to play an important role in promoting global growth, especially in emerging markets and developing countries. For growth to be truly inclusive, banking must reach out to many more people than it reaches now. Technological changes in the form of Information Technology and mobile banking greatly expand the potential reach of the banking system. Developing and under-developed economies all over the globe are looking for new modes and means to curb poverty and include their citizens in the financial system. One of the important factors that would help achieve this vision is to ensure total financial inclusion. In order to achieve the goal of faster and inclusive growth, it is high time the Government and banking industry undertake a comprehensive relook into the existing policies and structures.

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