



## Digital Banking in India: A Literature Review

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**Abstract:** *The demand for anytime, anywhere banking in today's banking environment necessitates innovative, resilient, secure, and ready to meet the demands of empowered and tech-savvy customers. The process of transitioning from traditional banking to a digital world is known as digital transformation. It represents a substantial shift in how banks and other financial institutions learn about, connect with and serve their customers. This article addresses the role of digitization in Indian banking, need for digitization of the banking sector in India and the challenges in digital banking. The current study is based on secondary data. The information was acquired from a number of sources, including research papers, government publications, RBI bulletins, and banks websites. It has been concluded that the digital banking has greatly reduced bank operating costs. This has enabled banks to charge lower fees for services while delivering higher interest rates on deposits. Bank earnings have improved as a result of lower operational costs. The article also indicated that digital banking has the potential to significantly transform the landscape of financial inclusion.*

**Key Words:** Digital Banking, digitization, Fintech.

### 1. INTRODUCTION:

Banks have become an essential part of everyday life. The Indian government is currently working to create a cashless economy. Digital banking is quite significant in this process. In today's world, the milkman accepts wallet payments without hesitation, a man purchases a geometry set of Rs 100 with a credit card, and the vegetable vendor utilizes a QR code-based "scan and pay" facility. New revolutionary digital technology and brilliant ideas have given birth to entirely new economic and societal dimensions. Banks are not merely a part of our lives; they play an important role in them. Banks are continuously looking for new ways to improve the client experience. Digitalization is not an option for the banking business; it is an unavoidable necessity. The current buzzword in India is building a cashless economy. In India, digital banking is the new paradigm, and it has several advantages for the banking industry. It aids in boosting banking sectors' efficiency and profitability. The primary goal of this is to increase the 4Cs, which stand for Cost, Convenience, Control, and Customer Satisfaction. In the middle of the 1990s, when private sector banks were first established, a new business model centered on a solid Information technology (IT) foundation arose in India. ICICI Bank, a private sector bank, started digital banking in India in 1998, and its success over the past ten years has put great competitive pressure on other Indian banks (public sector and private sector) to act quickly to stay competitive (Kannabiran and Narayan, 2009).

"Digital India Mission" which is one of the major initiatives started by the Government of India aims to make the nation more technologically advanced. The government insists on being cashless, paperless, and faceless transactions in the economy. The crucial stages of a digital payment system are signing up, billing, choosing a payment method, and confirming a payment. The term "digital" describes the storing of data as digital signals. It can simplify banking operations. Digital banking streamlines and eases the transaction. One example is SMS banking. Every consumer is now free to do their tasks at their own convenience. According to (Gupta, 2008), the majority of Indian banks are dealing with two significant obstacles when incorporating IT into their daily operations as both an operational necessity and a strategic tool. So, it is more crucial to identify characteristics that are barriers to using digital banking in India rather than only those that make it easier.

### 2. REVIEW OF LITERATURE:

Giri and Ipsita Paria (2018) the article entitled "A Literature Analysis on Effect of Digitalization on Indian Rural Banking System and Rural Economy". The study focuses on a review and summary of several studies conducted by different researchers from various locations across India on the influence of digitization on India's rural banking sector. According to the study, digital banking has huge potential to revolutionize the landscape of financial inclusion. The



study also discovered that low-cost, simple-to-use digital banking can hasten the integration of the unbanked economy into the mainstream.

**K. Hema Divya and K. Suma Vally (2018)** focuses on an investigation of client adoption of digital payment methods. The study uses primary source of data which is collected from 183 persons in Hyderabad. Chi-square analysis was used to examine the data gathered through questionnaires. According to the survey, the banking industry is now performing better and is closer to realizing the goal of a cashless society as a result of the deployment of technology for digital payments.

**Arunangshu (2018)** studied the digitization of India's rural banking sector. The potential for the digital banking system to alter the financial landscape is huge. The study discovered that digital banking's low-cost, user-friendly characteristics could hasten the integration of the cash-less economy.

**Anthony Rahul Golden S. (2017)** discussed an overview of digitalization in the Indian banking sector. Banks are not merely a part of our lives; also they play an important role in our daily life. As a result, banks are constantly striving to implement cutting-edge technology in order to improve the client experience. According to the survey, as a result of the implementation of digitization, the financial sectors in India are experiencing significant changes as well as challenges. The survey also discovered that in the digital age, it is impossible to prevent growth and services such as digital banking.

**Rajeshwari (2017)** customers' expectations of banks are rising as a result of digital banking. They conclude from their analysis of secondary data that digital banking marks an important turning point for the Indian banking system. The development of Indian banking is aided by it. It demonstrates how swiftly banks' operating expenses have been decreased as a result of digital banking. Banks will profit more if their operating costs are lower. He believes that virtual banks have the potential to alter the way that banks are organized.

**Sharma (2015)** stated that digital banking will be a watershed moment in the Indian economy. The study is analytical in nature and is based on secondary data. According to her, digital banking has an impact on the Indian economy. The economy is changing as a result of advances in financial technology. It can deliver better services to their customers. It is acceptable in the market because of their rapid expansion. After analyzing the benefits of digital banking, everyone in the market desired it for overall expansion and success.

**Geetha (2014)** did a study on urban cities in India with 200 respondents. The researcher has identified a number of factors that directly affect the adoption of e-banking services. They outline criteria including innovation, client familiarity, awareness, security, and trust. These elements impact how customers view online banking.

**Utpala (2013)** did a study to examine the market's present state of e-banking. The author examined respondents' perceptions about e-banking using the primary data source. The researcher examine the challenges that clients confront when using internet banking. According to Utpala, 60% of the urban population uses digital banking. All transactions are now completed using mobile banking. Bill payment via mobile banking has just gotten a whole lot easier. It is critical to target the rural people by developing awareness initiatives and training courses. It should aid in the promotion of digital banking in India.

### 3. OBJECTIVE OF THE STUDY:

- To study the need for digitization of the Banking sector in India.
- To study the role of digitization in Indian banking.
- To understand the challenges of digital banking.

**4. DATA COLLECTION:** The data was gathered from secondary sources such as several research papers, banking websites data, RBI Bulletins and the Indian Banking structure.

#### 4.1. NEED FOR DIGITALIZATION IN THE INDIAN BANKING SECTOR:

The Indian banking sector realized the need for computerization in the late 1980s to improve customer service, book-keeping, and record-keeping. In 1988, the Reserve Bank of India formed a committee chaired by Dr. C. Rangarajan to investigate computerization in banks. The computerization trend increased during the Indian economy's reformation from 1991 to 1992. One of the main causes of this development was the growing involvement of private and foreign banks in the banking industry. To stay competitive and relevant in the race, several commercial banks started to transition towards digital service delivery. The introduction of MICR-based cheque processing, electronic fund transfers, branch interconnection, and ATM adoption have made banking time more convenient for commercial banks in India. Many were forced to use mobile banking or digital payment during the demonetization era due to a lack of cash, which appeared to be a better option for them. The Indian government is currently heavily promoting digital payments. The National Payments Corporation of India introduced United Payments Interface (UPI) and Bharat Interface for Money,



which are the two essential components of the payment system. Customers can send money between accounts at several banks utilizing the UPI mobile platform by using a virtual address rather than their actual bank account numbers.

#### 4.2. ROLE OF DIGITIZATION IN INDIAN BANKING:

The majority of Indian banks were quite hesitant to implement the changes brought about by technological innovation. The mechanization and digitization of the Indian banking sector were caused by a variety of factors. The initial step towards digital transformation in banking was the implementation of standard check encoders i.e., Magnetic Ink Character Recognition (MICR) code. Now, each bank branch has a unique MICR code which facilitates the sorting and processing of checks. The step of implementation of unique MICR code was more of an innovation than a necessity which ultimately eases the banking operations. Banks started integrating computer technology with personal computers and subsequently set up their own local area networks (LAN) to reduce errors and speed up the process. Due to growth of networks, the banks began to connect with each other, this results in the evolution of Centralized Online Real-time Exchange (CORE) banking. Customers were able to conduct financial transactions and view their accounts from any of the partner banks' branches using CORE banking. Customers could manage bank accounts more easily, which gradually inspired the term "**Anytime, Anywhere Banking**". Eventually automated teller machines (ATMs) were on the scene, making it feasible to conduct electronic transactions of funds. In the 2000s, online banking and tele-banking were introduced, and various methods of online fund transfers, such as Real Time Gross Settlement (RTGS) and Immediate Payment Service (IMPS), were implemented. National Electronic Funds Transfer (NEFT) is an electronic funds transfer system started in 2005 by the Reserve Bank of India (RBI), which enables bank customers in India to transfer funds between any two NEFT-enabled bank accounts on a one-to-one basis. Online innovation services and mobile banking have both grown in popularity in recent years. The Indian banking industry's transition to digitalization, which started in the 1980s, has come a long way.

#### 5. CHALLENGES OF DIGITAL BANKING:

- **Security and Privacy:** This is the most significant obstacle in digital banking. Everyone has concerns about the privacy and security of digital banking. They do not believe in digitization. They solely do cash transactions. The majority of users' perceptions of banking remained unchanged. They believe that as technology advances, some concerns will emerge. Consumers do not want to take any chances with the money they have worked so hard to achieve.
- **Knowledge of Digitalization:** Many people are unfamiliar with the concept of digitalization. This system requires periodic updating to increase its accuracy. This digitization only works when customers are informed and knowledgeable about it. This is the challenge of covering more and more users. For this Information and knowledge is most important.
- **Internal barriers:** The banking sector, like any other, has departments. The change in technology has an impact on the departments of the organization. Customers and banking personnel are the most essential parts of the banking system. Bank employees' knowledge of digitalization is just as vital as customer knowledge of digital transactions. How can staff influence customers if they are unaware of this? As a result, the banking system can train its workers to stay current with evolving technologies. It has the potential to improve staff performance and productivity.
- **Non-financial institutions:** Similar to the government and banks, certain other companies like Google, Paytm, etc. offer their clients the same services as banks do. Customers can deposit money into someone's bank account directly through the platform offered by these non-financial business houses. No laws or regulations apply to these groups. However, there are a number of laws that financial institutions must follow.
- **Digital banking system:** The demand for digitization is increasing rapidly these days. Yet, most banks lack the courage to immediately implement this strategy. Best and most skilled management will be required for this, so that their policies and strategies assist the organization. Some people prefer a ready-made system, while others prefer to design and apply their own. It takes a long time to make a decision about what is more advantageous to the organization. Since every choice has a "cool-and-burn" point, the organization is faced with a dilemma in deciding which method to use.

#### 6. CONCLUSION:

Digital banking has a substantial market share. With technological innovation, the financial sector is changing. Every consumer now accepts digital banking for their convenience. Yet, some faults occur as a result of this advancement. As a result, there are some technological concerns that affect customer impression. Digital banking is transforming traditional banks into larger and more efficient places of business. Customers' transactions are made easier



via digital banking. People can simply pay their bills, move money from one place to another, and check their bank details. The expansion of digital banking in India can help with a variety of challenges, including the expansion of the capital market, the expansion of the insurance industry, and the expansion of the venture capital market. With the increasing use of smart-phones, digitization of the banking sector is unavoidable in order to meet the world's growing demands. It did, in fact, reduce human errors and improve convenience. Most businesses no longer have to rely on the bank's operating hours because of digital banking. Transactions can now be completed even during odd hours. Certain transactions, such as bill payment or recurring payments, can be automated on the digital banking platform. As a result, firms can save a significant amount of time on manual operations, which has a significant influence on productivity. The convenience of '**Anywhere Banking**' has boosted the number of customers. Human mistakes have been decreased via digitization. The data may be accessed and analyzed at any moment, allowing for a robust reporting system. Digital banking is transforming traditional banks into more environmentally friendly and efficient centers of business.

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