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The Impact of Digitalisation on Indian Banking Sector

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ABSTRACT
"Digital" is the new buzz word in all sector. With other sector, banking is also all around the globe shifting towards digitalization. Banks of all sizes and across all regions are making huge investments in digital initiatives in order to maintain a competitive edge and deliver the maximum to its customers. Adoption of digitalization is very important for the banking sector. By embracing digitalization, banks can provide enhanced customer services. This provides convenience to customers and helps in saving time. Digitalization has transformed manual processes, transactions and activities into digital services. Across all verticals, consumer needs have been met in entirely innovative ways, disrupting existing enterprise value chains. Digitalization reduces human error and thus builds customer loyalty. Today, people have round-the-clock access to banks due to online banking. Managing large amounts of cash has also become easier. Digitalization has also benefitted customers by facilitating cashless transactions. Customers need not store cash anymore and can make transactions at any place and time. Several commercial banks started moving towards digital customer services to remain competitive and relevant in the race. Banks have benefitted in several ways by adopting newer technologies. E-banking has resulted in reducing costs drastically and has helped generate revenue through various channels. Commercial Banks in India have moved towards technology by way of Bank Mechanization and Automation with the introduction to MICR based cheque processing, Electronic Funds transfer, Inter-connectivity among bank Branches and implementation of ATM (Automated Teller Machine) Channel have resulted in the convenience of Anytime banking. Strong initiatives have been taken by the Reserve Bank of India in strengthening the Payment and Settlement systems in banks. Indian government, banks, fintech companies have been innovating and changing the way India spends its money. At the same time digital revolution also raises new challenges to the stability and the integrity of the financial system and the protection of consumers.

INTRODUCTION
Digitization is the conversion of data into a digital form with the adoption of technology. Digitization reduces human errors and, therefore, encourages customer loyalty. Banks of all sizes and in all regions are making large investments in digital initiatives in order to maintain a competitive advantage and offer the maximum to their customers. In addition, digitization leads to intelligence and intelligence of solid data, which helps banks to approach customers and get closer to the competition. By adopting digitization, banks are now providing better customer services. This provides convenience to customers and helps save time.

Today, people have access to banks 24 hours due to online banking. Managing large amounts of cash has also become easier. Digitization has also benefited customers by facilitating transactions without cash. Customers no longer need to store cash and can make transactions anywhere, anytime. It is a powerful, modular and open digital participation platform that allows people to boost agility and speed. The main steps of the digital banking process have focused mainly on adding to the existing offer the use of new services enabled with technology to increase accessibility and value for customers. In this paper, the study focuses on the impact of digitalization on banking, which is a major concern with the payment services provided by the bank to its customers.

Need and Progress of digitalisation in banking sector:

In the late 1980s, to improve customer service, accounting and record keeping the need for computerization was felt in the Indian banking sector. Then in 1988, the Reserve Bank of India established a committee to study Computerization in bank headed by Dr. C. Rangarajan. The process of computerization gained pace with the reform in the Indian economy in 1991-92. One of the main drivers of this change was driven by the growing entries of private and foreign banks in the Banking industry. Several commercial banks began to move towards digital customer service to remain competitive and relevant in the race.

The Commercial Banks in India have moved towards technology through the Mechanization and Automation of the Bank with the introduction to cheaque processing based on MICR, the electronic transfer of funds, the interconnection between bank branches and the implementation of ATMs (ATM) have resulted in the convenience of at any banking time. The Reserve Bank of India has taken strong initiatives to strengthen payment and settlement systems in banks. Now the Indian government is aggressively promoting digital transactions. The launch of United Payments Interface (UPI) and Bharat Interface for Money (BHIM) by National Payments Corporation of India (NPCI) are important steps for innovation in the payment systems domain. UPI is a mobile interface where people can make instant transfers of funds between accounts in different banks on the basis of a virtual address without mentioning the bank account. Indian banks are now working hard for providing following facilities to their customer for increasing their banking business, for attracting more customers etc.

1. Automatic Teller Machine (ATM): -

The ATM is the most popular device in India, which allows customers to withdraw their money 24 hours a day, 7 days a week. With the use of ATM card customer can perform routine banking transactions without interacting with a human cashier. Apart from cash withdrawals, ATMs can be used for paying utility bills, transfer funds between accounts, deposit cheques and cash, balance inquiries, etc.

2. Telebanking: -

Telebanking facilitates the customer to carry out banking transactions not related to cash phone. According to this design, the automatic voice recorder is used for simpler transactions and queries. For complicated inquiries and transactions, manned telephone terminals are used.

3. Electronic Compensation Service (ECS): -

The Electronic Compensation Service is a retail payment system that can be used to make bulk payments / receipts of a similar nature, especially when each individual payment is of a competitive nature and of an amount relatively minor. This service is useful for organisations and government administrative divisions to make / receive large volumes of payments instead of making transfers of funds by individuals.

4. Electronic Funds Transfer (EFT): -

Electronic Funds Transfer (EFT) is a system where anyone who wants to make payments to another person / company, etc. one can approach bank and make cash payments or give instructions to transfer funds directly from his/her account to the recipient / beneficiary's bank account. Full details such as the recipient's name, bank account number, type of account (savings or current account), bank name, city, branch name, etc. they must be provided to the bank at the moment of requesting such transfers so that the amount of the beneficiaries' account is correct and faster. RBI is the EFT service provider.

5. Real-time gross settlement (RTGS): -

The real-time settlement system, through which banks give electronic instructions to transfer funds from their account to the another bank account. The RBI maintains and operates the RTGS system and provides an efficient and faster means of transferring funds between banks that facilitates its financial operations. As the name suggests, the transfer of funds between banks is done in real time.

6. Point of sale terminal: -

Point of sale terminal is a computer terminal that is connected in line to the computerized files of customer information in a bank and magnetically encoded plastic transaction card that identifies the customer with the computer. During a transaction, the customer's account is debited and the computer credits the retailer's account for the amount of the purchase.

Growh of Indian banking sector:

Technological advancements in the digital payment ecosystem are changing lives significantly and providing end consumers with speed, convenience, choice and savings. The following table indicate the percentage change in digital payment in year 2016 when compared with 2015 and 2017 when compared with 2016.[1]

Payment System Indicators							
Month/Year		Item	April			% Change 2017 / 2016	% Change 2016 / 2015
			2015	2016	2017		
1	Volume (Million)	RTGS	7.9	8.33	9.54	14.6	5.4
	Value (Rupees Billion)		82,958.17	86,459.34	1,11,743.70	29.2	4.2
2	Volume (Million)	CCIL Operated Systems	0.23	0.26	0.25	-5	13.8
	Value (Rupees Billion)		65,647.89	72,044.93	80,878.53	12.3	9.7
3	Volume (Million)	Paper Clearing	94.37	88.26	99.97	13.3	-6.5
	Value (Rupees Billion)		7,650.61	7,108.17	7,351.49	3.4	-7.1
4	Volume (Million)	Retail Electronic Clearing	211.4	316.89	431.1	36	49.9
	Value (Rupees Billion)		6,586.90	9,169.02	13,700.63	49.4	39.2
5	Volume (Million)	Cards	753.85	925.1	1,035.38	11.9	22.7
	Value (Rupees Billion)		2,297.09	2,630.24	2,877.17	9.4	14.5
6	Volume (Million)	Prepaid Payment Instruments (PPIs)	74.36	69.3	352.23	408.3	-6.8
	Value (Rupees Billion)		27.57	46.72	103.71	122	69.5
7	Volume (Million)	Grand Total	1,142.11	1,408.13	1,928.48	37	23.3
	Value (Rupees Billion)		1,47,409.88	159410.36	1,93,423.72	21.3	8.1
Source: Database of Indian Economy, RBI							

Thus from the above table it can be seen that all the payment systems used in India shows positive percentage growth when compared with the year 2016 in the year 2017 except in the CCIL volume in million. But when we observe the CCIL operated systems in value the it shows increase in percentage compared with 2016 in the year 2017.

The Report submitted by Niti Aayog on Digital Payments in July 2018 depict the important information related to overall payment growth and the instrument wise payment growth trends in India.

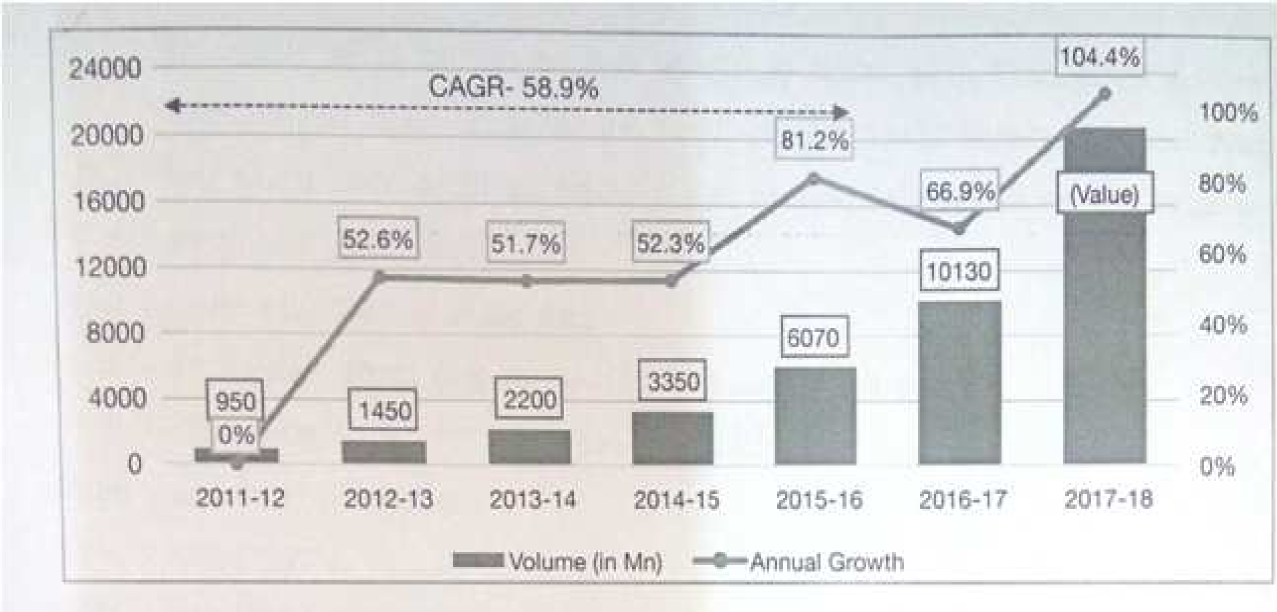
They are as given below

Instrument Wise Growth Trends – Volume:

The retail payment segment accounted for as much as 99 percent of total volumes in 2017-18. From this, the paper compensation ratio that formed 34 percent of the total volume in 2013-14, steadily declined to 7.4 percent in 2017-18. There is a corresponding increase in electronic compensation actions and cards. Within the category of electronic clearing cards and cards, the PPI followed by the debit card and, to some extent, IMPS have shown impressive increases in their shares in total volume in recent years. The total payment of the card, in fact, accounted for the largest part (almost 50 percent) of the total volume in 2017-18. The participation of NEFT has generally increased over the years, except for some fall in 2017-18.

UPI has shown an exponential growth compared to any other payment product and services. The total volume of the UPI transaction has increased by 5024.5 percent in 2017-18. The total value of the UPI transaction has increased by 1481 percent in 2017-18.

Volume – Overall Growth Performance (MeitY Data):



Value – Overall Growth Performance: MeitY does not disseminate value data in public domain.

The volume of global payments increased steadily during the period 2011-12 to 2015-16, registering an average annual growth rate (CAGR) composed of more than 58.9 percent. The growth rate in the volume of global payments accelerated further to 104.4% in 2017-18. Figure 1 indicates trends in digital payments during the period from 2011-12 to 2017-18. The growth in 2017-18 is spectacular and could be attributed to the development of an innovative digital payment platform such as BHIM-UPI, BHIM Aadhaar and Bharat QR Code. It is noteworthy that the growth in 2017-18 is much higher than the growth rate of the trend in the last five years (2011-2016).[3]

Today banks aim to provide a fast, accurate and quality banking experience to their clients. The most important agenda for all banks in India is digitalization. The RBI data shows that the value of transactions through checks as a proportion of the total number of transactions was reduced to 3%. The average number of monthly transactions through checks in 2012 was 16.53 million and, as of June 2018, the number of check-based transactions increased to 94.7 million per month on average.

India's digital payment industry, which is currently worth around USD 200 Billion, is expected to grow five-fold to reach USD 1 Trillion by 2023, as per a report by Swiss financial services holding company, Credit Suisse. Digital payments present a huge opportunity for various digitization initiatives in the country. [4]

PUSH TO ONLINE, APP-BASED PAYMENTS

For 12 months ending June

	Number of transactions (mn)	Total value of transactions (₹ bn)	Value of transactions as a proportion of total deals (%)		
			Cheque	RTGS	Mobile
2014-15	853.04	100,440.75	5.40	75.13	0.03
2015-16	1,040.09	144,093.18	5.00	55.33	0.09
2016-17	1,327.37	158,939.13	3.90	56.24	0.28
2017-18	1,742.71	196,535.39	3.50	55.41	0.71
2018-	2,044.65	219,593.29	3.06	57.75	0.54

Note: Data for other Payment networks like Electronic Clearing System, Forex Clearing, Clearing Corporation of India among others not included

Source: RBI Database on Payment System Indicators

Conclusion:

The banking landscape is changing. A new wave of technology is revolutionizing the way customers interact with their finances. From social to mobile capabilities, banks are reconsidering their way of doing business to offer a better customer experience and remain competitive. By looking at the scenario existing now in India, one can find that People are now taking more and more advantage of the digitalization in case of banking. Traditionally, banking practice use to focus on “product push” (i.e. increasing sales targets) rather than understanding how best to delight its customers. In recent times, banks are keen to become more customer-centric. With the help of digitalization Indian banks are now not only getting more customers but also delivering top-notch services, as efficiency counts as well.

In this innovative business model, it is crucial to ensure regulatory compliance for smooth and long-term execution. The key challenge in the digital age is to ensure that all customers are protected against cybercrime, and that the most advanced cybernetic values are employed. The change to digitalization and the continuity of it should serve to reduce costs for the industry, since this will reduce labor and automate the system.

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