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A STUDY OF DIGITAL TRANSFORMATION IN BANKING SECTOR

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ABSTRACT

Digital transformation in the banking sector is a continuous process that affects both the external and internal environment by redesigning internal processes and existing methods. This is era of digital transformation. Everything is transformed digitally or in a process of transforming digitally now-a-days. This has economic advantages for those who opt this at earliest. Digital Transformation in banking is most needed step in the world of trade and commerce. It begins with understanding of e-behaviour of banking customers and ends up to their utmost satisfaction. Consumers are raising bars on their expectations as banking sectors experimenting with more advanced technology. Now banks are focusing on their customers like any retailers through an Omni-Channel lens. This definitely helps both bankers and customers economically more transparent and wealthy domestically. We are in the world of globalization and now digitalization and globalization become synonyms of each other. International banking are now fully digitalised and capturing more and more clients by providing best facilities. Obviously, wealth maximization is their objectives. This paper explains the relationship of digitalization, wealth maximization and economic development of the nation.

Keywords:

Digital Strategy; Digital Transformation; Digital Banking; Technology Acceptance Model; E-Services; User's Intention; Business Model

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Introduction

The Banking system plays very important role in the economic development. Banks collect savings from householders or retailers or individuals and lend this money to big corporates and in business. Corporate houses use this money for expansion of business and pay interest to bank on borrowed capital. Apart from this, banks play intermediary in the economy as they supply funds from surplus to deficit economic agent. In any plan of economic development, capital occupation has a strategic decision. There is ample of degree of capital formation if country provides more saving from their citizens. Banks provide platform for formation of capital. The banking sector has been the backbone of every emerging economy. Technological advancement in banking fuels in economic development of the nation. As customers feel safe and encouraged dealing with their earnest money through banking. The banking industry in India is flourishing and expanding. Digital banking is term for delivery of banking/ financial services and products through electronic channels, such as ATMs, the internet, the mobile phone, the social media, e-commerce etc. Customers are getting better services at competitive prices in era of digitalization. The liberalization of the economy has created a competitive culture that changed the scenario of banking sector by storm. Adoption of digitalization in banking will have a sweeping impact on economy's development.

REVIEW OF LITERATURE

Digitalization especially in banking sector may help the economy towards a cashless society. Indian government is trying to implement everything through digital and hence origin of digital India. Indian will get lot of advantages if the process of digitalization is implemented properly. Various authors and researchers have already worked on these areas and identified issues and its importance. Every system has its pros and cons, similarly digital system may not be full proof in today's point of view because geographical and demographic variation of Indian economy but it has the potential to provide significant benefits to the rural poor people by Pradhan Mantri Jan Dhan Yojna. It became possible through digitalization only and scheme is implementing through banking sector only. It reduces the level of corruption in the system and beneficiary is getting benefit directly. Various studies are done on importance of digitalization.

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IDRC Project Report (2000) has done pilot project on a group of 6 villages in Pondicherry. The objective was to develop an ICT infrastructure to create a community-based atmosphere to share the information related to various aspects. Gradually, the villagers realised to understand the importance of ICT and utilised services to increase the productive activities. The project was able to bring a positive outcome and betterment for the stakeholders.

Malecki (2003) discuss the drawback of digital movement in rural America. There are shortages of human capital. People are migrating from rural to urban area for better income opportunities and this degrades economic activity. The digital movement helps to create job opportunities which the younger generations are looking for. The inflow of financial resources through this process will ultimately help to bring economic growth.

Yang et al (2005) developed a case study on operational efficiency of small community banks. They are limited with rural places and with limited community. They survive because of local needs. Competitive challenges from other banks make community banks thinking of creating better value added and customer friendly services. E–Banking is a system which helps to create this kind of opportunities for them.

Sharma (2012) describes the need of internet banking in the rural areas. Six lakh villages and 70% population are part of rural segment in India. Rural people are dominating in Indian economy. They are in diverse nature. Traditional banking services may not be able to satisfy or fulfil demand of large numbers of rural segment. The author has suggested 17 factors which influence services to the rural people like adequate arrangement of ATMs, customer training facility, cost of maintaining bank accounts, transportation etc.

Akinola (2012) explains in his paper about security and reliability part of cashless system. Cashless transactions not only reduce corruption and crimes but also it increases government revenue to a great extent. Simultaneously, banks should win confidence of their customers.

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Chitla (2012) discussed the role of ICT in eradication of poverty and rural development. He suggests that customers now became more advanced with technological advancement and they must get satisfied with services offered by bank. Indian government is also implementing various welfare schemes through e-governance one of them is Direct Benefit Transfer (DBT), this is meant for rural people.

Anand et al (2012) described e–learning methodology to educate the rural consumers. It educates customers while dealing with technology related issues. The online learning process is cost effective to educate the people.

Gupta et al (2013) studied on ICT based payment system in Indian banks. By this technology, the payment facility becomes more smooth, transparent and cost effective. Services like withdrawing money, opening bank accounts, transferring money from one account to another also becomes possible with the help of internet. Access to capital becomes easier. Villagers live in small villages with population of 500-600 members. Bank branches are available at Taluka or Panchayat places which may be way from their natives by 10 to 20 KMs. It becomes difficult for them to approach banks because of non-availability of transport facility. They are concerned about their travelling cost also. Use of digital banking helps them to reduce the problems faced by these groups.

Razak et al (2013) discussed the role of Information Technology which helps to develop smart villages in Malaysia. Villages may get recognition of smart village if they have facility of internet. Farmers are getting information and solution related with their crop through technology based agricultural productivity. They may increase production and they may able to sell their goods at best prices through advancement of technology. Author warned that the process of digitalization must be executed promptly to every village for uplift farmers and poor people.

Singh (2013) observed through his paper that traditional banking is not fulfilling local needs a shortage of manpower and branches in proportion to population. Also, adaptation of new technology will not work effectively until the advantages of technology are not understood by the customers.

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Most of the people avoid the conventional banking system and rely heavily on the local money lenders because of complicated process of conventional banking. He suggests that there is need of attention so that the psychological barriers may be removed gradually. He explained that there is a growing trend of internet usage in urban, semi urban and rural area and users are more enhanced by penetration of mobile phone. Author observed that implication of internet is not that much impressive due to lack of knowledge and fear of leaking of their personnel data.

Nath (2014) tells that ICT is need for marginal economy and demand for developed economy. ICT implementation is limited up to specific sections of the society. He suggests that, necessary changes to be made in the policy so that the true benefits of ICT should be availed by all the groups of people. Ahamad et al. (2015) explain that Indian economy is basically agrarian economy and most of the people are engaged in agricultural activities. Unfortunately, agriculture yield largely depend on rain water and short fall of rain unemployed farmers. This leads to migration of labour from rural to urban and leaves shortages of manpower in the rural areas. Application of Information Technology provides job opportunity living in their territory with relevant information.

Vinayagamoorthy et al (2015) studied about scattered rural population distribution. Rural are facing infrastructural and lack of banking facilities, they become more dependent on local moneylenders. The higher cost of operations may be reduced with the help of adequate development of technology led banking services, viz. mobile banking services, internet banking services etc. The modern banking approach also depends heavily on the technology aspect.

Bhatnagar (2015) describes the awareness and adoption of new age banking facilities by the rural poor. It has been witnessed that after reforms of financial sector, most of the banking services are widened their operations by expanding the banking operations in unbanked areas. As the technology started playing an important role, the costs of delivering the services are also reduced drastically. Though lack of awareness and trust, these re major issues for implementation of e-banking system.

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Kak et al (2015) have highlighted role of ICT in developing socio economic aspect of rural India. With increased business opportunities the rural consumers become the target consumers now-a-days.. Due to changing environment, e-commerce companies may take more participation in development of ICT in rural area too.

Deshpande et al (2015) analysed the role of ICT in developing rural villages. For economic development, adequate measures to be done on improvement of population still leaving in rural areas. ICT is one such scale which aims to improve the agricultural productivity, can attract people in allied sectors as well as non - farm sectors. There is a potential to attract huge investment in these sectors if and only if the technological improvement may be incorporated adequately.

Pavani (2016) discussed the effectiveness of financial inclusion programme for the betterment of the rural poor. The basic objective of financial inclusion programme is to provide banking services at an affordable cost.

Dhanraj et al (2016) attempted to describe the role of Regional Rural banks (RRBs) in shaping the rural economy and rural credit structure. the banks should guide to make them understand the essential demand supply conditions as well as market need. But neither the banks nor the implementing agencies are able to see the gap and as a result of the same the outcome are below the expectation level.

Midha (2016) discussed the issue of digitalization process and effectiveness of digital India campaign. This was good initiative done by Government; digital India campaign aims to create a cashless society.

Newase et al (2016) focuses on the increasing importance of ICT among rural village communities. It has a dual role to play. It helps to improve the standard of living of rural poor and also able to create better income generating opportunities Variables observed from above studies are useful in implementation of digital technology which accelerates growth of India economy. Digitalization in

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banking help to improve access to finance for rural poor, It helps to handle any kind of banking transactions, It helps to reduce travel time, queue time and manpower time which may be utilized for constructive purposes, Government's Direct Benefit Transfer Schemes can be implemented in a hassle free manner, It reduce corruption at various levels, risk of robbery and theft may be reduced, It saves time and effort of bank officers and customers while handling small denomination payments. The digital payment system is too easy to understand. Only one concern about safety and privacy in digitalization doubts among customers to be addressed properly. Every transaction recorded digitally helps government to generate more revenue and this will help in growth of economy.

GLOBAL PERSPECTIVE OF DIGITALIZATION IN BANKING

According to survey of bank and credit union executive conducted by FIS, most of banking executives believe that digital transformation is an important strategic decision. They said that "digitization will fundamentally change the competitive landscape and the economics of corporate banking business models".

Globally, according to Part of its annual Performance Against Customer Expectations (PACE) series, indicates that at the biggest banking institutions' investment in digital capabilities has risen to a level to match their view of its importance. 83% of the top 50 global banks and 75% of regional banks plan to increase their digital investments in the next 12 months. In fact, one in five of the respondents from the largest banks think even more spending is needed. One in four regional banks felt the same. They also feel that digital transformation "extremely" or "very" important. Among all survey respondents, the top three technology investments were payments related improvements (32%), fraud prevention (25%), and enhanced digital channel functionality (21%). The bottom three was ATMs 10%, on boarding automation 9%, and open banking APIs (9%).

Risk Factors Related to the Resources Integrated with the Online Services

SBI made a significant move into mobile banking in 2012, and with the advent of smartphones and 3G services, mobile banking services have become increasingly popular with Indian customers.

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Typical activities include conducting balance inquiries, account transactions, utility payments, and other banking activities using mobile phones. By radically increasing the ability of their customers to create value by involving the user in core banking processes, SBI hoped to tap into the strategic potential of using IT to widen both the reach and scope of their services. As our analysis will show, however, the strategic uses of IT employed by the SBI were not risk-free. To enhance security, SBI's online banking service system and ATM service system resources were integrated with other service systems that aimed to make processes transparent to the customer. When a customer withdraws money through an ATM or transfers/receives money through online transactions, related information is transferred through text messages to the customers' mobile devices via systems integrated with SBI's overall service system. In order to complete an online transaction process, customers need to type in a security code that as transmitted to their mobile device as a form of the second authentication (Figure 1). While SBI viewed the integration of mobile devices as a value-adding security precaution, from the customer's perspective it was not without issues. For example, during money transactions, the security code necessary to proceed with the transaction was often not received on time on the customers' mobile devices. Due to the lack of clear feedback, such events caused customers to frequently perceive the undesired outcome as caused by user mistakes, in turn triggering new, often futile, attempts to successfully complete the process. Even when the security code was received on the mobile device on time, customers also reported that sometimes they were still met with an error message stating that the code number was incorrect: by the time that the customer entered the code, the webpage might have canceled the request automatically forcing the customer to re-login to proceed with the transaction. Because of these problems many customers complained that the online service, which purpose was to drive customer value through the novel and strategic uses of IT, have made the banking experience more arduous.

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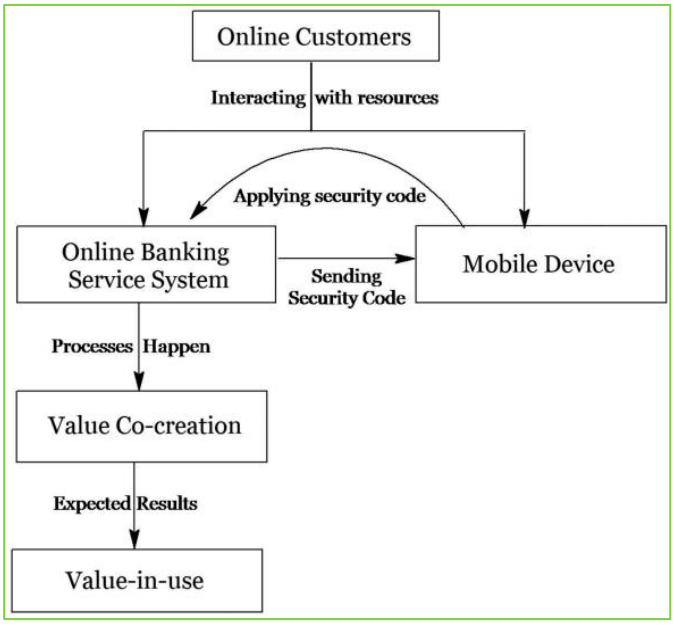

Figure 1. Structure Of the Value Co-Creation Process from A Customer's Perspective

Complexity in the Online Service Systems

SBI viewed IT-enabled variety and customer flexibility as key drivers of value, and core aspects of the mission to diversify the bank's portfolio of products and services offered to an increasing customer base. However, our findings indicate that the value propositions offered through the IT-based banking services were perceived by the customers as complex rather than flexible.

To synthesize our empirical findings regarding risk factors, challenges, and complexities associated with SBI's online services:

1) A key risk factor from the customer's perspective was the poor integration of mobile devices with the online banking system.
2) The complexities identified from the customer's reported experiences originated from an imbalance of value propositions in the online banking system, which frustrated customers' efforts to derive value-in-use from the online service systems.

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CONCLUSION

It is concluded that it is important to understand how people will perceive online banking may help policy makers and managers to enable the success of digital banking system and enhancement of the e-commerce. In addition to the competitive pressure among banks and e-commerce industry, the government support is also a strong driver for e-banking adoption in rural India. The government support is demonstrated in two ways. Firstly, the Indian Government is establishing an E-commerce friendly environment in India after demonetization. Heavy investments have been committed by the Indian government in recent years to revamp the national ICT and logistic infrastructures. The Government of India has announced the Digital Villages initiative, during the Budget 2018. The initiative of government to connect as many as 1 lakh villages with the digital services offered by the Government, within the next five years. The Jan Dhan Yojna, the Aadhaar scheme and the penetration of mobile phones have become “game changers” for the economic development of India.

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