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STUDY OF DIGITAL BANKING IN INDIA

AUTHORED BY: - MR. NAGSEN.U.MANE

Abstract:

As digital technologies continue to transform the financial sector worldwide, India stands at the forefront of this evolution with its burgeoning digital banking landscape. This article delves into the dynamic realm of digital banking in India, scrutinizing its multifaceted issues and challenges.

The study encompasses an extensive analysis of the current digital banking infrastructure in India, tracing its evolution, adoption rates, and regulatory framework. It highlights the transformative impact of digital banking on traditional banking practices, customer behaviours, and financial inclusion initiatives.

Furthermore, the article identifies and examines the key challenges hindering the seamless transition to digital banking in India. These challenges include infrastructural limitations, cyber security threats, regulatory complexities, digital literacy gaps, and socio-economic disparities among the population.

Through a comprehensive review of existing literature, regulatory documents, and empirical studies, this article offers valuable insights into the intricacies of India's digital banking ecosystem. It underscores the urgent need for collaborative efforts among policymakers, financial institutions, technology providers, and regulators to address the existing challenges and foster a more inclusive, secure, and efficient digital banking environment.

Ultimately, this study contributes to the ongoing discourse on digital banking by providing a nuanced understanding of the issues and challenges specific to the Indian context, while also offering recommendations for stakeholders to navigate and capitalize on the opportunities presented by the digital revolution in banking.

Keywords: Banks, Internet, online transactions, virtual bank, E-banking

Introduction:

Banking used to be a labour-intensive industry in the past. For example, to get cash, you had to go to the bank branch, give a bank employee your check, get a token, and then wait for the cashier to call your number. During a month's first week, when there was a rush for cash among patrons, and the wait was quite lengthy.

Fortunately, all of that is no longer the case. The use of digital banking has completely changed how things are done. All you need to do now is visit the closest ATM, use your card, and in less than a minute, you'll have cash in your possession. Additionally, switching to digital banking gives you the best chance to take advantage of paperless banking situation in which physical records of your bank activities and history are no longer necessary.

The way we bank in this day and age has been totally transformed by digital banking.

You may transact with more speed, ease, and convenience when you use digital banking.

History of Digitalization of Banking:

ATMs and credit cards were introduced in the 1960s marked the beginning of digitalization of banking. Digital bank networks started to link retailers, suppliers and customers. After the internet and the broadband service appeared in the 1980s, creating a need for software programs for inventories.

With the widespread availability of the Internet during the 1990s, online way of banking began to gain traction. In the 2000s saw the development of e-commerce and broadband networks, which resulted in the current digital banking environment. The next ten years saw the widespread use of cell phones, which made it possible for transactions to take place outside of ATMs. Nowadays, 60% of people choose to use their mobile phones for digital way of banking.

End-to-end consistency and services that are user experience and convenience oriented are in high demand.

Digital Banking:

To put it simply, a digital bank is one that conducts business online and offers its clients services that were previously exclusive to bank branches.¹

Digital banking is defined as banking using a digital platform, eliminating the need for all of the supporting documentation, including demands drafts, pay-in stubs, and cheques. It denotes the accessibility of all banking functions via the internet.

With digital banking, you may conveniently access and carry out all standard banking tasks around-the-clock without needing to physically visit a bank location to complete your tasks. You can use your smartphone, tablet, or laptop to conduct digital banking. This is the main idea behind digital banking in India².

Difference between Digital banking & online banking:

Despite the apparent similarity between the two phrases, digital and internet banking differs fundamentally. Only a portion of the underlying core's transactional functions are included in online banking financial framework.

Basic banking services like account management and statement access are available through online banking, which is usually accessed through the internet. Online banking systems capabilities are constrained & cannot be easily increased to offer customers more financial services.

Compared to traditional systems, digital banking systems is far more versatile & enable banks to expand functions considerably more quickly. High level process of automation, web based services, & APIs are the foundations of digital banking, which offers banks and their clients high degrees of security, flexibility, and cost-effectiveness. A fully digital client journey is made possible by modern banking technologies, which also produce real-time data streams and speed up critical analytics.

Mobile banking is another phrase that is often used interchangeably with digital and online banking. It is characterized as a service that an established bank offers to its clients so they an

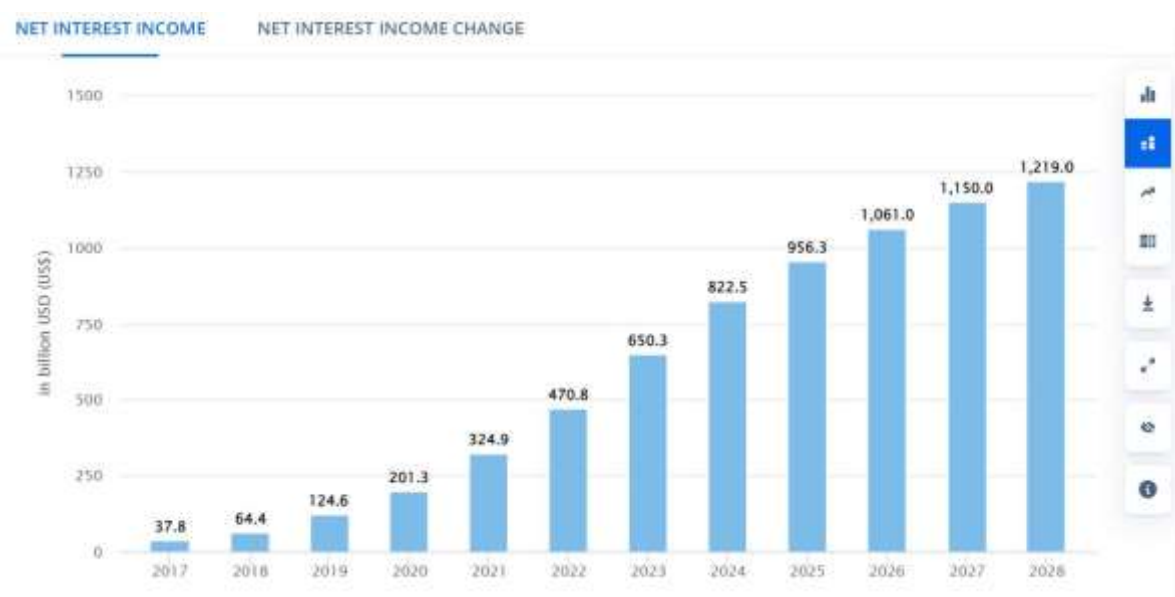
¹ <https://sdk.finance/what-is-digital-banking>

² <https://www.hdfcbank.com/personal/resources/learning-centre/digital-banking/what-is-digital-banking>

established bank offers to its clients so they can conduct transactions using their mobile devices instead of going to a physical bank branch.

Digital banking statistics:

Over the next five years, Statista predicts that the digital banking industry will continue to expand. For the near future, this pattern indicates how digital banking services will continue to evolve and grow.



Source: Statista³

Customer’s preference are shifting, with an increased propensity to conduct financial transactions through digital channels, and the growing acceptance of digital technology are the main factors driving the expansion of digital banking. Contemporary online banks are profiting from the providing quick, practical online and mobile banking services in accordance with customer requirements.⁴

The types of digital banks⁵

Even though most people nowadays are familiar with the terms “neobanks” and “challenger bank”, it could be challenging to distinguish between them. To help with this, let’s fill in all the is and

³ <https://www.statista.com/outlook/fmo/banking/digital-banks/worldwidenet-interest-income>

⁴ <https://sdk.finance/what-is-digital-banking/>

⁵ supra

examine the two primary categories of digital banks.

Challenger Banks:

Challenger Bank is the term originated in the United Kingdom & refers to a new launched bank that “challenges” olden traditional banking institutions. It is user-friendly and cost-effective for an end-user, challenger bank focuses on the audience segments that are underserved by the big financial institutions.

Neobank:

Neobank is an online digital bank that offers its clients remote access to its services using a mobile app. Neobanks does not have a physical location. Numerous neobanks collaborate with an established bank to conduct bank-licensed operations even though they lack a bank license. Clients must open an account with the partner bank. Neobanks frequently provide a more limited selection of services than banks with licenses.

New bank:

The only way these fully licensed neobanks differ from traditional brick-and-mortar banks is that they operate entirely online. They offer the same range of financial services. Starling Bank, Monzo, N26, and Revolut are a few examples of the new banks.

Nonbank:

As per the name, these banks are non-banking organizations which offer financial service, such as simplified mortgages or loans, but they do not take deposits or provide checking and savings accounts. EMI is how some nonbanks, like Monese, function.

Recognised Digital Banks in India:

1. Digibank
2. ICICI Bank
3. Niyo
4. IndusInd Bank
5. Kotak 811
6. Axis Bank
7. Axis Bank ASAP
8. BankPoint

9. Fi Money
10. Finin
11. H d f c bank
12. Fampay Solutions Private Limited
13. Jupiter
14. Jupiter Money

Here are some of its advantages:

Investments:

Digital banking has made investing simpler than it has ever been. Just a few seconds are needed to open a fixed deposit within few seconds. Additionally, you can invest in other instruments via Digital Banking. Use Netbanking, purchase insurance, and even submit a loan application.

Cash Withdrawal:

You can avoid visiting a bank branch because there are ATMs located everywhere. You can take out cash from the ATM at any time of day or night with digital banking.

Fund transfers:

The most important benefit of digital banking is the capacity to move money. The trouble of writing checks or Demand Drafts is not necessary. To send money to anyone, anywhere, at any time, all you have to do is use digital banking. There are several options accessible at any time. There are numerous choices, including RTGS, NEFT, IMPS, and others. Using the Mobile Banking App makes it much simpler to complete.

Paying the Bills:

Paying online has never been simpler thanks to digital banking. Additionally, you have the option of setting up auto-debit to have your invoices paid on a regular basis as soon as they arrive. Digital Banking has indeed changed the way we live. There is a phone number for digital banking. In fact, digital banking has completely changed how people live their daily lives.

Mobile Banking:

The internet was the primary medium for the Digital Banking Revolution's initial phase. Mobile phone platforms are a part of Digital Banking's second phase. Following the release of

smartphones, digital banking has become extremely popular. Customers can now use smartphones to perform bank business while on the go. They can pay their bills, invest in fixed deposits, and transfer money while they're on the go. The majority of banks, offer consumer apps like MobileBanking App, PayZapp and many others.

Stop Cheques:

For whatever reason, you might occasionally need to cease sending checks. Forexample, you might have entered the wrong amount or the beneficiary you intended. In that instance, stopping checks is quite simple with digital banking. All you have to do is sign in using a straightforward by clicking, the check processing can be updated.

Keeping track of transactions:

Customers can now track transactions so much more easily thanks to digital banking. Whether know your pay has been credited to your account, simply pull out your smartphone to verify. It will be clear to you in few seconds. Also, if money is deducted, banks send SMSs from your holdings. In the odd event that a fraudulent transaction occurs, you will be notified right away.

The benefits of digital banking for consumers:

It's critical to comprehend how contemporary digital banking solutions allow emerging banks to provide higher-quality, more affordable services that their more established counterparts, as an increasing number of digital banks join the market. Here, we've outlined the key benefits of online banking:

Improved usability:

Digital Banks and their clients can open accounts from any internet-enabled device in a matter of minutes thanks to integrated KYC and AML standards. Banks can provide quick and easy client service by using ID verification systems and risk assessments, which allows individuals who are not financial services to bank consumers. One of the main benefits of personal banking is that it's always open. Customers can now access a variety of services and complete any transaction from any location.

Cost savings:

For whatever reason, you might occasionally need to cease sending checks. For example, you might have entered the wrong amount or the beneficiary you intended. In that instances, stopping

checks is quite simple with digital banking. All you have to do is sign in using a straightforward. By clicking, the check processing can be updated.

Greater personalization:

Artificial intelligence (AI) and machine learning (ML) driven sophisticated personalization methods are made possible by digital banking software. Bank are able to provide their clients with timely instructional materials, interactive tools, and pertinent financial solutions. Automated among the tools that assist in informing and engaging clients are budgeting, expenditure analytics, and savings reminders.

Wow-features:

Many capabilities that traditional banks just cannot provide are now available in digital banks, such the ability to purchase gold and crypto currencies or make direct stock market investments through the banking app. Customers of online and mobile banking can quickly adjust transaction limits, security setting, and even whether or not to enable NFC or magnetic stripe payments.

Issues:

Technology Risks⁶:

An In-Depth Exam and Mitigation Similar to the difficulties that traditional brick and mortar banks are currently facing as they transition to digital banking, such as net banking, prospective digital banking also have difficulties in the internet paradigm in the form of a several cyber attacks that 'Phishing and Vishing' that result in account takeovers and hijacking. Cyber attacks using malware, spyware, and other methods that are coordinated via botnets, viruses, etc. Cyber-attacks pose a greater risk because digital-only banks and neobanks will mostly operate on desktop and handheld computers in the near future. The aforementioned concerns are mostly caused by technology hazards and are present in both digital banks and scheduled commercial bank's current digital banking channels.

Establishing a robust and cyber-proof technological base and developing the necessary capabilities to manage and reduce these risks are essential. Considering how quickly things are changing. In the context of the regulatory templates, digital banks will need to leverage cutting-edge technology for smooth interaction with regulator's and bank's regtech solutions, and

⁶ https://www.niti.gov.in/sites/default/files/2022-07/DigitalBanking07202022_compressed.pdf

regulators themselves will need to develop cutting-edge Suptech solutions to facilitate automated supervision. As per the classification scheme endorsed in the Financial Security Board report 56: Suptech: The use of cutting-edge technologies to assist regulators in automating their oversight obligations. Enhancing monitoring, surveillance, and analytical skills along with producing real-time risk indicators can help promote forward-thinking, judgment-based supervision and policymaking.

RegTech refers to the use of cutting-edge technologies to assist financial organizations in complying with regulatory standards. Regtech solutions could be used by neobanks and digital-only banks to “improve compliance outcomes, enhance risk.” Management skills and produce fresh company insights for better decision-making. Five fundamental basic services are offered by Regtech solutions, according to a Deloitte research: compliance, regulatory reporting, risk management, identity management and control, and transaction monitoring. Smooth compliance will be made possible by the effective implementation of these technologies, which will aid in the automated, data-driven, two-way flow of information. Furthermore, at every bank, conventional or digital:

Guidelines for appropriate reporting standards to the authorities ought to exist:

- To facilitate investigations, common reporting guidelines for regulators, law enforcement, and other agencies can be created.
- A staff for automated or emergency requests must to be included in digital banks. This will speed up the process of getting bank information. A major issue with the traditional banking ecosystem is that bank employees are not always available on certain days of the week.
- The hiring of Chief Information Security Officers, or CISOs, in online banks is the last step. In the event of a cyber attack, the CISO will serve as the point of contact for prompt action.

Conclusion:

India has public digital infrastructure, including UPI, has proven it is capable of taking on long-standing rivals. As mentioned in the introduction, the value of UPI transactions has exceeded ₹ 4 trillion. 55 Aadhaar authentications have been completed. Lastly, India is about to put its own Open Banking system into action. These indexes show that India has the necessary

technological stack to support DBs completely. India has the chance to maintain her leadership in Fintech globally and address a number of her country's policy issues by developing a blueprint for digital regulations and policies.

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