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# **EMERGING TRENDS IN BANKING** **SECTOR IN INDIA**

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## **ABSTRACT:**

The banking sector, as a crucial component of the financial industry, plays a pivotal role in the economic development of individuals and nations. Banks have significant control over the money supply, making them key drivers of economic progress. A robust banking and finance sector is essential for a country to achieve developed status, as it fosters growth, job creation, wealth generation, poverty eradication, entrepreneurial activity, and overall economic growth. Today, banking is characterized by innovation and technological advancements. Information technology has revolutionized product design and delivery in the banking and finance industries, enabling banks to prioritize customer service and satisfaction. The focus has shifted from mass banking to personalized services through the introduction of value-added and customized products. Technological advancements have also allowed banks to establish virtual branches and offer services without the need for extensive manual operations. Electronic banking, electronic funds transfer, and other similar products have enabled faster and more efficient funds movement, surpassing previous limitations. However, these technological advancements also pose challenges in terms of security, privacy, and confidentiality of transactions, particularly with the rise of networking and internet connectivity. To remain competitive in the long run, the banking sector needs to adapt to a new business model that emphasizes effective management, customer service, diverse product offerings, and cost control. This paper focuses on exploring the emerging trends and challenges in the banking sector, with a particular emphasis on digitization. It aims to provide valuable insights for academics, banking and insurance

professionals, financial advisors, students, researchers, and general readers seeking to enhance their understanding of these developments.<sup>1</sup>

KEY WORDS: Bank, Banking, Indian Banking Structure, Indian economy.

## INTRODUCTION:

Digitization has become a fundamental aspect of the banking industry, focusing on providing a seamless and convenient experience for customers. In recent years, there has been a noticeable decline in branch usage and a significant increase in digital banking adoption. Both private and public sector banks are prioritizing the development of new technology-based services such as mobile banking, mobile banking apps, and e-wallets. The greatest advantage of digital channels in banking lies in their ability to offer tailored business models and innovative propositions by analyzing customer banking patterns and maximizing customer value.

Information Technology (IT) has become a crucial tool for efficient banking systems, and Indian banks have established robust infrastructures to leverage its benefits. Digitization is not merely an option for the banking industry but an inevitable transformation, considering that nearly every sector is undergoing digitization. India and its citizens are prepared to embrace a cashless society in this era of digitization. As the backbone of the economy, banks have progressively embraced digital solutions to provide customer services at customers' fingertips through mobile devices and computer screens. The "Digital India" campaign initiated by Mr. Narendra Modi has the potential to revolutionize the Indian banking industry. In line with the progress of "Digital India," more than 12,000 rural post office branches have been integrated into the payment banking system. Furthermore, the introduction of new payment banks, along with anticipated policies and regulations, is expected to bring about a significant transformation in the Indian banking sector.

The vision of "Digital India" aims to transform the country into a digital economy with active participation from citizens and businesses. As part of financial inclusion initiatives, over 190 million accounts have been opened, with approximately 38 percent of them being zero-balance accounts. This

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<sup>1</sup> Chellaswamy P.-(2010) —Modern Banking Management, Himalaya Publishing House, [Last seen 2/6/2023

vision seeks to maximize value, empower people, and achieve widespread technological penetration among the masses. Despite India's heavy reliance on cash, the country is gradually moving towards a cashless economy through financial inclusion policies and the "Digital India" campaign, which aim to regulate the flow of unaccounted money.<sup>2</sup>

## **ADOPTION OF AN OMNI-CHANNEL APPROACH:**

The most effective way to transition from traditional banking to digital banking is through the adoption of an omni-channel approach. Omni-channel refers to a customer service strategy where all channels are tightly integrated, with a focus on putting the customer at the center of the integration. As customer preferences and behaviors continue to evolve, banks and credit institutions need to prioritize delivering a seamless customer experience across multiple touchpoints. Omni-channel banking goes beyond being a mere slogan; it is an opportunity to enhance the bottom line by gaining insights from customers' channels, behavior, and preferences.<sup>3</sup>

Today's customers are more sophisticated and technologically savvy. They expect personalized experiences from banking institutions that understand their unspoken needs and preferences. Therefore, it is no surprise that these customers demand a similar level of responsiveness and service from banks. Whether it's researching new services, opening accounts, checking balances, conducting transactions, applying for loans or credit, managing wealth, or seeking customer support, providing an omni-channel experience has become crucial for success in today's competitive market.

Embracing the omni-channel approach is essential to ensure a unified and integrated customer experience that supports customers in the right place, at the right time, and in the right way, aligned with their mobile and digital lifestyle. Remaining relevant in the current banking revolution requires a deep understanding of customers' needs, desires, and demands. It also necessitates a strategic blend of IT infrastructure and innovative technologies to stay ahead in the market and drive both top and bottom lines upward.<sup>4</sup>

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<sup>2</sup> The Indian Banking Sector: Recent Developments, Growth and Prospects, (2013), [Last seen 2/6/2023]

<sup>3</sup> Edet, O. (2008). Electronic Banking in Banking Industries and its Effects. I J of Investment & Finance. (Volume.3), [Last seen 2/6/2023]

<sup>4</sup> <https://www.business-standard.com/article/opinion/aditya-puri-digital-banking-in-a-digital-india->

Shinjini Kumar, the leader of PwC India's banking and capital markets division, stated, "Many Indian banks, similar to their Asian counterparts, are well-positioned to leverage local talent and leapfrogging technology in order to create forward-looking digital strategies."<sup>5</sup>

## RECENT DEVELOPMENTS IN BANKING:

**i) Automated Teller Machine (ATM):** The ATM is widely used in India, allowing customers to withdraw money at any time of the day or week. It enables routine banking transactions without the need for interaction with a human teller. Besides cash withdrawal, ATMs offer services such as bill payments, funds transfers, cheque and cash deposits, and balance inquiries.

**ii) Telebanking:** Telebanking enables customers to perform non-cash banking activities over the telephone. Simple queries and transactions are handled by automated voice recorders, while more complex ones are attended to by bank representatives through manned phone terminals.

**iii) Electronic Clearing Service (ECS):** ECS is a retail payment system designed for bulk payments or receipts of a similar nature. It is commonly used by companies and government departments for making or receiving large volumes of repetitive and relatively smaller payments.

**iv) Electronic Funds Transfer (EFT):** EFT allows individuals to make payments to other individuals or companies by authorizing their bank to transfer funds directly from their own account to the recipient's account. Complete details of the recipient's account, including the account number, type, bank name, city, and branch, are provided to ensure accurate and speedy transfers. The Reserve Bank of India (RBI) facilitates the EFT service.

**v) Real-Time Gross Settlement (RTGS):** RTGS is an electronic funds transfer system introduced in India in March 2004. It enables banks to give real-time instructions to transfer funds from their account to another bank's account. The RTGS system, operated by the RBI, ensures efficient and swift funds transfer among banks, with the beneficiary receiving the funds instantaneously and the beneficiary's bank responsible for crediting the account within two hours.

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116032700601\_1.html, [Last seen 2/6/2023]

<sup>5</sup> <https://go.gale.com/ps/i.do?p=AONE&u=googlescholar&id=GALE|A537173130&v=2.1&it=r&sid=AONE&asid=79dea18e>, [Last seen 2/6/2023]

**vi) Point of Sale Terminal:** A Point of Sale (POS) terminal is a computer terminal connected to a bank's online customer information files. It works in conjunction with a magnetically encoded plastic transaction card that identifies the customer. During a transaction, the customer's account is debited, and the retailer's account is credited by the computer for the purchase amount.<sup>6</sup>

## **CHALLENGES:**

### **i) Job Loss Concerns with Automation and AI:**

The advent of AI and automation brings forth immense innovation. However, it also raises concerns about potential unemployment as numerous jobs become fully automated, limiting opportunities for job seekers. The banking sector is not exempt from these technological advancements.

### **ii) Voice Revolution Impact on Online Banking:**

With the maturation of voice recognition and authentication, it is projected that web traffic to banking sites and mobile applications may decrease by 50% in the coming years. Customers will have the convenience of simply speaking to an internet-connected device to carry out common banking tasks in a matter of seconds. The decrease in web traffic due to voice recognition systems presents a significant challenge for the banking industry. Current website visitors engage with marketing promotions while conducting banking tasks, and a decline in web traffic may hinder the opportunity for cross-selling to existing customers.

### **iii) Challenges Associated with Biometrics:**

Operational challenges may arise with biometrics, as changes in voice quality could affect speech authentication. Individuals engaged in labor-intensive jobs may have damaged fingerprints, and even senior citizens may encounter difficulties with fingerprint authentication.

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<sup>6</sup> [https://www.researchgate.net/publication/338749945\\_Recent\\_Development\\_in\\_Indian\\_Banking\\_Sector](https://www.researchgate.net/publication/338749945_Recent_Development_in_Indian_Banking_Sector), [Last seen 2/6/2023]

#### iv) **Security Concerns:**

Cybersecurity is a critical challenge faced by stakeholders in the digital payment ecosystem, as highlighted in KPMG's analysis on 'Digital Payments - Analyzing the cyber landscape.' As more users embrace digital payments, the risk of exposure to cybersecurity threats such as online fraud, information theft, and malware or virus attacks increases. Lack of awareness and an inadequate digital payment ecosystem contribute to the rise in these attacks.

#### v) **Digital Literacy in Rural Areas:**

There has been substantial growth in smartphone users in rural India in recent years. However, many individuals in these areas lack awareness and confidence in conducting online banking through smartphones. The primary use of smartphones in rural areas is often limited to entertainment and communication. While urban tech-savvy customers embrace the evolving landscape of ICT innovation in banking, there is a need to educate the Indian rural population about concepts such as AI, biometrics, blockchain, big data, and other advancements.<sup>7</sup>

## OPPORTUNITIES

**i) Online Banking:** It is evident that online finance will continue to grow, leading to greater convergence in product offerings across banking services, share trading, insurance, loans, and data-driven technologies such as data warehousing and data mining. Anytime, anywhere banking will become commonplace, and banks may consider launching separate internet banking services alongside traditional banking services.

**ii) Retail Lending:** Banks have successfully adopted customer segmentation, allowing them to customize their product portfolios. Retail lending, especially in financing consumer durables, housing, automobiles, and more, has become a focus area. This strategy has helped banks disperse risks and increase earnings through better recovery rates.

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<sup>7</sup> <https://www.jetir.org/papers/JETIR2012274.pdf>, [Last seen 2/6/2023]

**iii) Rural Customer Base:** The banking sector has a largely untapped market in rural areas, where 70% of the Indian population resides. While banking services have penetrated urban areas, there is still a significant gap in rural villages. Banks should aim to expand their reach to all villages, as the majority of Indians still live in rural areas.

**iv) Diversification of Channels:** Banks can offer multiple channels for accessing banking and other services, including ATMs, local branches, telephone/mobile banking, video banking, and more. Expanding the range of channels can help increase business opportunities.

**v) Excellent Customer Services:** Providing exceptional customer service is crucial for banks to grow their business. Each interaction with a customer is an opportunity to develop trust and loyalty. In an increasingly competitive landscape, customer service has become a key factor in evaluating the performance of banks.

**vi) Indian Customers:** The Indian customer presents a significant opportunity for the banking sector. Customers now seek to fulfill their lifestyle aspirations at a younger age, requiring an optimal combination of equity and debt for financing consumption and asset creation. This opportunity extends across different societies, towns, and villages, including rural areas. Consumer goods companies have already tapped into this potential, and it is up to banks to capitalize on this opportunity by delivering tailored solutions to this market.

**vii) Other Opportunities:** The future of the Indian banking sector holds numerous opportunities, such as entering new businesses and markets, developing innovative working methods, improving efficiency, and delivering high levels of customer service. Banks should explore these avenues to stay competitive and thrive in the evolving landscape.<sup>8</sup>

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<sup>8</sup> <https://unacademy.com/content/bank-exam/study-material/general-awareness/challenges-and-opportunities-in-indian-banking-industry/>, [Last seen 2/6/2023]

## SUGGESTIONS:

Emerging trends in the banking sector in India present several opportunities for growth and development. Here are some suggestions on how banks can leverage these trends:

**i) Embrace Digital Transformation:** Banks should continue to invest in digital technologies and adopt a customer-centric approach. This includes offering internet banking, mobile banking apps, and e-wallets to provide convenient and seamless banking experiences for customers.

**ii) Enhance Cybersecurity Measures:** With the increasing adoption of digital banking, banks must prioritize cybersecurity to protect customer data and transactions. Investing in advanced security measures, encryption techniques, and regular security audits can help mitigate potential risks.

**iii) Focus on Financial Inclusion:** Banks should actively work towards expanding their services to rural areas and unbanked populations. This can be achieved through the establishment of more branches, mobile banking vans, and leveraging technology for financial inclusion initiatives.

**iv) Embrace Artificial Intelligence and Automation:** AI and automation can significantly improve operational efficiency, streamline processes, and enhance customer experiences. Banks can leverage chatbots, automated customer support, and AI-powered analytics for personalized financial advice and targeted marketing campaigns.

**v) Strengthen Data Analytics:** Banks should harness the power of big data and analytics to gain valuable insights into customer behavior, preferences, and risk management. By analyzing data, banks can offer personalized products and services, manage risks effectively, and make informed business decisions.

**vi) Collaborate with Fintech Startups:** Collaboration with fintech startups can bring innovation and agility to traditional banking operations. Banks can explore partnerships or investment opportunities with fintech companies to leverage their technological expertise and offer new and innovative services to customers.

**vii) Enhance Customer Experience:** Improving customer experience should be a top priority for banks. This can be achieved by providing personalized services, simplified processes, and seamless integration across various channels. Investing in customer relationship management systems and implementing feedback mechanisms can help banks better understand and meet customer

expectations.

**viii) Promote Financial Literacy:** Banks can play a significant role in promoting financial literacy among customers. Conducting workshops, organizing educational campaigns, and providing easy-to-understand financial resources can empower customers to make informed decisions and improve their financial well-being.

By embracing these emerging trends, banks in India can stay ahead of the competition, meet evolving customer demands, and contribute to the growth and development of the banking sector in the country.<sup>9</sup>

## CONCLUSION:

In conclusion, the emerging trends in the banking sector in India present both challenges and opportunities for financial institutions. The advent of technology, such as automation, AI, and voice recognition, has the potential to streamline banking operations and enhance customer experiences. However, it also raises concerns about unemployment and security issues. Internet banking is expected to witness significant growth, leading to a convergence of various financial services. Retail lending has become a focus area, allowing banks to customize their product portfolios and improve risk dispersal. Furthermore, there is a vast untapped market in rural areas, where digital literacy and access to banking services need to be improved. To capitalize on these trends, banks should offer a range of channels for customers to access their services and prioritize excellent customer service. Additionally, understanding the changing needs and aspirations of Indian customers is crucial, as they seek to finance their consumption and asset creation. While exploring new business opportunities, entering new markets, and improving efficiency, banks must also address cybersecurity challenges and promote digital literacy in rural areas. By embracing these emerging trends and adapting their strategies accordingly, banks in India can position themselves for success in the evolving banking landscape. Overall, the banking sector in India has the potential to leverage emerging trends and technologies to deliver innovative, customer-centric services and contribute to the country's economic growth and financial inclusion.

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<sup>9</sup> [http://ijar.org.in/stuff/issues/v7-i2\(2\)/v7-i2\(2\)-a016.pdf](http://ijar.org.in/stuff/issues/v7-i2(2)/v7-i2(2)-a016.pdf), [Last seen 2/6/2023]

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