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Digitization not a Choice but a Necessity for the Indian Banking Industry

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Abstract - Indian economy is growing at a rapid pace that requires the people to be financial literate to take sensible decisions. In the present era of digital changes, with new technologies, even the smallest players can cause big waves. Customer expectations, profitability goals, the junction of industries and innovative Fin-Tech competitors are creating tremendous pressure on the banks to adapt to innovative technologies and restructure their businesses. Ever since demonetization, there has been a push by the government to formalize the economy, particularly the banking system. Banks must not only execute on today's imperatives but also radically innovate and transform themselves for the future. Digitization is very important in the banking industry and embracing digitalization, banks can provide enhanced customer services. This article is an attempt to find out the necessity of the banks to leverage digital technology for battling disruption

Key Words **Digitization; Disruption; Fin-Tech; De-monetization**

Introduction

Banks in India have witnessed a drastic transformation from the "conventional banking" to "convenience banking". The management must rethink on the branch and the services it offers. Banks are trying to pour more technology into their brick-and-mortar settings. The technology-enabled physical system plays a critical role in building trust and credibility, providing financial advisory services, offering ease, and assisting in the transition to digital channels.

Evolution of Banking and the Shift

Banking is an essential part of economic activity today and digital banking in India is highly advanced. Tracing its roots, the word Bank evolved from the Italian word 'Banca' which means 'bench'. The merchants in the early middle ages would sit on benches where they would keep their coins for lending, exchanging, and so on. The first bank was established in Venice, Italy, in 1157 and was called the Bank of Venice. Then others state that the banking system was in existence by about 2000 BC in ancient Assyria and Babylon.

Chanakya in his Arthashastra of the second or third century CE alludes to powerful merchants who lent money and kept deposits. In the Indian context, the earliest banks were the Bank of Hindustan and the General Bank of India, both of which failed. Then the Bank of Calcutta was established in 1806, and it eventually came to be known as the State Bank of India.

Shift towards Digital Banking

Idiom "Digital banking" also denotes internet banking or online banking. It simply means that a bank enables its customers to make transactions, submit requests, and handle other banking activities through the online medium. Digitization of banking in India got initiated in the year 1980's has certainly come a long way. It is important to note that the pioneer bank to introduce internet banking in India was the ICICI bank in the year 1996. Since then several other banks have followed the same. Today it has changed to a necessity for the banks and is the only means to survive.

Easing Banking Mechanism

Banks in India as a whole were very disinclined to accept the changes brought about by technological innovation. Several factors brought about automation and digitization in the banking industry in India. The use of the standard cheque encoders was the initial step forward in digital transformation. Magnetic Ink Character Recognition (MICR) helps in the sorting and processing of cheques with each bank branch having a MICR code. The next step was more of a necessity than an innovation. Further to lessen errors and speed up the process, banks began using computer technology with standalone personal computers and then set up their local area networks (LAN).

When the network expanded, the banks began to tie together and so Core Banking came into being. Centralized Online Real-time Exchange (CORE) banking thus allowed customers to perform financial transactions and access their accounts from any of the participating bank's branches. These services made banking easy for the customers and slowly led to the coining of the phrase: 'Anytime, Anywhere Banking.' Then after the Automated Teller Machines (ATMs) were introduced and electronic fund transfers were made possible.

Online and telebanking made their appearance in the 2000's and different modes of online fund transfers were instituted such as Real Time Gross Settlement (RTGS), Immediate Payment System (IMPS), National Electronic Fund Transfer (NEFT), and National Electronic Clearing Service (NECS). Recent years have seen the growth in mobile banking services and other innovative services online.

The smart branch

A smart branch's choice requires more than just the mechanism and integration of new technology. It requires a full reformatting of the material space and the use of personalized, data-driven analytics to improve the overall consumer experience. The secret is in making the experience consistent no matter which channel(s) they choose.

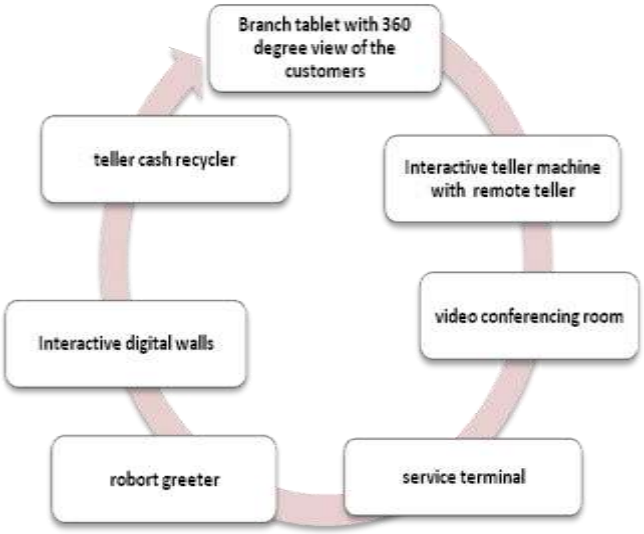

Figure 1: A Smart Bank Branch

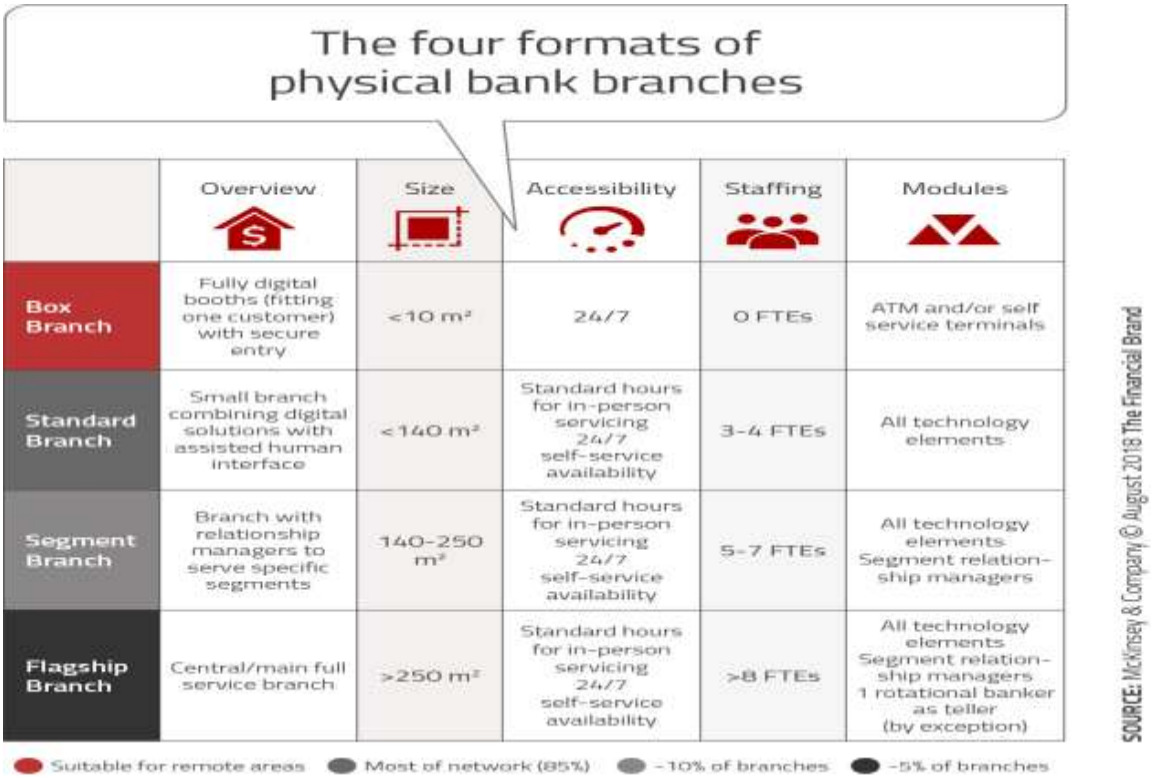

Figure 2: Physical Bank Branches- The basic format

Technologies with the Banks

A digital organization goes ahead of a simple redesign or replacing tellers with technology. A digital branch set-up requires a complete rethinking of digital delivery and on how the branch works with other channels. It requires much more than substituting papers with technology. The entire process needs to be rethought, valuing personalized client experience as the prime one. There has been an enormous change in the way banks operate; some of the latest technologies can be adopted are

Artificial Intelligence

The most essential part of this industry is Artificial Intelligence that has a profound impact. The machine learning in the banking industry can interact with humans by making decisions and in a convincing way encourage customers. The main aim of having Artificial Intelligence in the banking industry is to get insight into the customer's preferences, to ensure that the customers are pleased with the services of the banks and help them understand their expectations from the banks.

Block chain Technology

Banks are relying on block chain technology, which means that the account details of a customer are maintained in real-time across banks while eliminating the risk of hacking by criminals. Financial transactions become encrypted packets called blocks and get added to an encrypted chain, much like an email chain.

Personalized Service

Digital banking helps customize the screens for customers based on their usage history. It also permits for automatically filling indefinite information required on online forms. This ensures a much better user experience.

Security

While passwords and OTPs are already in use, the latest planned advancements are biometric verification, voice detection and face recognition soon. ATMs will become contactless, and the mobile phone would be used to operate it.

Digitization Transforming Banking Transactions:

The rise in the personal digital devices used, has led to an intense shift in the way customers wish to interact with their banks. In response, banks are investing heavily in developing digital channels for servicing their customers. The benefits visible are presented in the table below. Figure 2: Benefits of Digital Banking. The benefits visible are presented in the table below

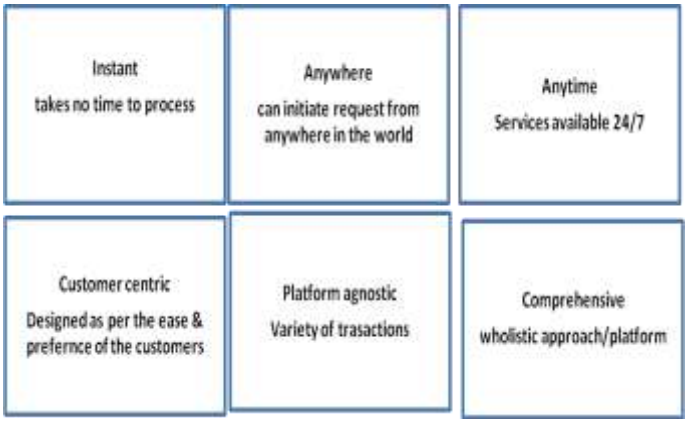

Figure 3: Benefits of Digital Banking

Conclusion:

Digitization has given a fresh meaning to the Indian banking sector in the post-demonetization era. The banks which were much used to the traditional ways of banking are now adopting emerging technologies such as RPA, cloud, AI, and block chain to cut down their operating expenses and improve efficiency. AI, in particular, is not only being deployed by banks in serving regular customer queries but also in offering deep learning-based cognitive solutions.

One of the major drivers of these technologies in India is the growing popularity and the status of the fin-tech firms. India is ranked globally second is embracing FinTech services after China. A digitally linked India can help in improving the social and economic state of people through the development of non-agricultural economic activities apart from providing access to education, health, and financial services. However, it is important to note that ICT alone cannot directly lead to an overall improvement of the nation.

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