

## Digital Banking Scenario in India

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### Abstract

*Indian banking system has witnessed transformation from traditional banking to convenience banking with the use of technology. After liberalization of Indian markets, it was the need to perform radical changes in banking system to provide faster and quality service to customers and to face the competition from foreign banks. The digitization of banks has taken a long journey from ATM to mobile banking & Unified Payment Interface. This paper presents the figures of global banking and Indian banking transactions, trends of banking from research reports of various organizations. It presents the overview of Indian services sector and banking progresses in the digital era. It explains the consumer behaviour in banking transactions, the use of various modes of transactions and tries to focus on trends by discussing the facts and figure of banking in India. This paper focuses on the overview of the digital banking scenario of the world and current status of e-banking in India.*

**Keywords:** E- banking, Banking e-services, Global banking, Indian banking system, Emerging Market Economies (EME)

### Introduction

**Indian Service Economy:** India is the fastest growing economies in the world since the last two decades. The growth attained is attributed to the dynamic services sector, as per the Twelfth five-year plan 2012-2017<sup>3</sup>. Services sector is gaining importance in developing economies due to its ability to generate employment. Within the services sector financial institutions such as banks are the important service institutions of an economy. India's services sector contributed about 61% to India's GDP, growing strongly at approximate 10% per annum in 2015-16 as per the CII-KPMG1 report. The service sector exports also accounted to 3.2% as compared to 1.7% of merchandise exports. It is also the largest private sector employer in India, employs more than 3.7 million people as per RBI report<sup>6</sup>

After liberalization the Indian banking system has undergone many changes including the customer delivery processes. The competition from foreign banks with the high tech services has forced the private and public banks to reform the service process. Due to increase in the customer expectations from the banks it is challenging to retain and attract new customers for the banks. Banks have become customer centric with the use of advanced technology in their process. The computerization process of Indian banking began in late 1980's. In 1988, RBI set up a committee on computerization in banks headed by Dr. C. Rangarajan.

E services provide strategic benefits to service provider by enhancing operational efficiency, profitability by reducing time and cost involved in service delivery<sup>7</sup>. They also provide convenience of availing service 24/7 to customers. E-service quality is gaining importance as it is directly linked to customer satisfaction and retention. Service quality is the determinant of success not only in a traditional environment but also in an online market space.

## Global Digital Banking Scenario

Globally, banks are undergoing digitization forced by the competition. As per McKinsey Global Banking Review<sup>2</sup>, (2016) “banks are facing challenges from weak global economy, strict regulations in countries, and digitization.” There is a need to restructure banks, moving from traditional structure to embrace new technological capabilities.

As per World Payment report<sup>12</sup>2017 “Global non cash transactions volume increased 11.2% during 2014-15 to reach 433.1 billion, the highest growth of the past decade.” The report mentioned that, such growth is driven by EME to a large extent, which recorded a 21.6% increase in 2015, whereas mature markets grew by 6.8% with a nominal rise of 6% in 2014.

It is observed that in non-cash transactions, debit card usage has increased to 46.7%, followed by credit card usage with 19.5% share in 2015. The report<sup>119</sup> finds that “Non cash payments growth rate declined or grew marginally except in EME especially emerging Asia.” Globally the usage of e- payment has seen a fall in 2015. Developing countries have a bright future for non-cash transactions, even though the cash dominates the payment methods for low volume transactions. The factors which lead to usage of cash in EME are: “shortage of payment infrastructure, lack of access to banking system and anonymity of transaction associated with cash.”<sup>119</sup>. The linkage of consumer demography with the cash usage is found in EME's.

Banking industry will be affected in its profits for next three years due to digital disruption, as per the Mc Kinsey Report<sup>2</sup>. It states that depending on the extent of digital disruption, Japanese and US banks to have their profits at risk between \$ 1 Billion and \$ 45 billion by 2020. “Banks in Europe and UK have 31 % risk and severe digital disruption could further cut their profits from \$ 110 billion to \$ 50 billion in 2020”. The global banking is going to witness reduction in fee based businesses margin due to revolutionary digitization.

Banks in EME's are providing innovative mobile services to customers. EME's specially India and China banks are affected by digital commerce firms that have entered into banking.

## Digital Banking in India

Banking sector in India is one of the best regulated in the world. Sound banking is most important for financial sustainability and growth for any economy. It is seen that Indian banks have withstood the global downturn well.

Indian banking sector has the potential to become 5th largest banking industry by 2020 and 3rd largest by 2025 in the world as per CII- report<sup>1</sup>. This is possible by globalization & adopting technology which is the need of both banks and the customers. Therefore, it is crucial for banking to overcome the issues and challenges while attempting to implement technology in operations and more important marketing of e- services to the mass.

According to the report of RBI on “Trend and progress of Banking in India- 2015-16”<sup>10</sup> the following points are worth noting related to Indian banking and e- banking scenario.

RBI has a long term vision of developing competitive and sound customer friendly banking sector. There is also a possibility of starting new kinds of different banks such as custodian, wholesale financing.

Embracing technology in retail finance service delivery will provide competitive edge for financial landscape in India. It is a cost effective way of reaching last mile finance resulting in financial inclusion. The UPI (Unified Payment interface) is boosting the mobile banking in the country, as the mobile penetrations are high.

In EME's India stood out with higher economic growth. India witnessed a growth in Debit Card, during 2014-15 due to PMJDY, wherein each account holder issued a RuPay Debit Card. RBI has allowed banks to offer their services to ATM channel. In case of PSB's the share of Offsite ATM is less than 45%. “Bank group wise PSB's maintained a strong lead in providing of Debit cards with a share of 82.8%. The PVB's had dominant position in credit card issuance with 60% share.”

Indian banking system has seen greater use of PPI's for purchase of goods and services and fund transfer. The value transactions of these instruments has increased. PPI and mobile wallets usage has increased significantly to Rs. 254 billion and Rs. 206 billion respectively.

### Usage of Payment System in India

According to Annual Report of RBI, 2016-17, "the payment and settlement system recorded a growth in volume and value at 55.7% and 24.8% during 2016-17, respectively. The share of e- transactions moved up to 89% in total volume of Non cash payments from 84.4% in previous year. The share of electronic transactions moved up to 89% per cent in total volume of non-cash payments from 84.4 per cent in the previous year NEFT facility available through 130013 branches of 172 banks in addition to Business Correspondence outlets, during 2016-17 as shown in Table 1.

**Table 1. Usage of Payment Systems in India**

Item	Volume in Millions		
	2014-15	2015-16	2016-17
RTGS	92.8	98.3	107.8
Total Retail	1687.4	3141.5	4205.0
Electronic Clearing (ECS+NEFT+IMPS)			
ECS DR	226	224	8.8
ECS CR	115.3	39	10.1
NEFT	927.5	1252.9	1622.1
IMPS	78.4	220.8	506.7
Total Card payments	1737.7	2707.3	5450.1
Credit Cards	615.1	785.7	1087.1
Debit Cards	808.1	1173.6	2399.3
PPI's	314.5	748	1963.7

**Source:** RBI Annual Report 2016-17

It was reported that "the number of non-bank entities authorized for operating PPIs increased to 55 with 18 authorized during 2016-17. While 54 banks were granted approval to issue PPIs, 289 banks were permitted to provide mobile banking services up to June 2017."9

Even though many customers are aware about the e-services they do not avail the e-services. This attitude of customers is a concern for banking co.'s because they want to turn customers towards low cost, efficient channel.

Mc Kinsey report on "Digital Banking in Asia, 2015", 11 surveyed 13 Asian markets involving 16,000 customers. As per the survey outcome digital banking has become universal and mobile banking has increased its customer base more than three fold since 2011. The most prominent factors which have led to the demand of e banking are internet and smart phone adoption and growth in e commerce. The usage in Asian markets has increased from 58% in 2011 to 92 percent in 2014. Mobile banking usage has increased three times since 2011. Traditional channels dominate in usage, particularly ATM's in emerging Asia. ATM is the most preferred channel in India. (Pritam & Sowmya8). The usage of Mobile

and IB has recorded five times more usage than in 2011. Throughout Asia, consumers made fewer branch visits and calls in 2014 than in 2011.

The report concludes that merely world class online presence is not enough, consumers expect more than that. It is reported that customer service quality, financial products, brand equity and experience are valued by customers. Customer satisfaction is low for financial products and experience of usage. Digital banking is in primitive stages in EME's and hence conclusions cannot be derived from these markets. Thus there is a need to understand developing Indian market expectations & perceptions related to e- services quality of banks.

By the end of year 2014, the internet user base had grown to 302 million, after clocking its fastest rise of 32% in a year (IAMAI report 2015, Internet & Mobile Association of India). This shows escalation in the number of internet users in India. The user base increased from 10 million to 100 million in a decade, while it took just a year to reach 300 million user base from 200 million. Internet is mainstream in India today. Due to the growth of the internet, advertising in digital media, e- commerce, payments, social media have also seen steady growth. The further growth in internet usage is expected from non-metro and rural areas where mobile internet will play a pivotal role (IAMAI report). Therefore, use of the low cost smart phones with the internet usage by people accelerate the usage of e banking.

## Conclusion

As seen in many industries digital disruption has made its way in financial services sector too. India has over a billion mobile phone connections and the smartphone user base is expected to grow to 520 million users by 2020, according to a report on Digital Payments by BCG and Google<sup>4</sup>. In India with half of its population below the age of 30, which is tech savvy, expects more products and services that are fast and reliable. On the other hand many reports conclude that e- banking penetration was slow and compared to other nations it is low. This calls for research on consumer behaviour in using e services of banks and the role of various factors in adopting e- banking services and other payment options available.

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