

# DIGITAL BANKING

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**Abstract-** *New developed and implemented technologies change the way people behave and interact in their everyday life. They are changing the business world strategic context, by altering customers' behavior and expectations, business conduct and structure of competition, so the banking industry is no exception at all. Most people in the banking sector agree that digital banking is the wave of the future.*

*“Digital banking” often gets confused with mobile banking and online banking, because all these involve digital applications, in one form or another. Digital Banking is urgency, not an academic question, and nowadays digital change goes beyond banking. Digital banking is the incorporation of new and developing technologies throughout a financial services entity, in concert with associated changes in internal and external corporate and personnel relationships, to provide enhanced customer services and experiences effectively and efficiently.*

*The migration to a digital banking world will not be smooth and will lead to further fragmentation in the financial service markets. Banks must undergo a deeper modification of their business, culture, and IT, and above all, will need put innovation at its core and use data to create new business, revenue and customer engagement.*

**Keywords-** *Digital Banking, Digital Applications, Digitalization, Financial Service Market.*

**Objectives-** *By offering digital banking facility, banks aim to reduce operational expenses and improve business opportunities by concentrating on three aspects:*

1. *Establish appropriate conversation with the customer through various touch points.*
2. *Anticipate customer demands and offer tailor made solutions.*
3. *Ensure customer delight.*

## I. INTRODUCTION

“When I go to Silicon Valley...they all want to eat our lunch. Every single one of them is going to try!” Such iconic wording, anxiously articulated by Mr. James Dimon, CEO of JP Morgan Chase at the US investors day some two years ago, summarizes the biggest challenge the entire

banking industry, be it commercial or investment one, is currently facing in the course of everyday business.

The challenge has a name: DIGITAL REVOLUTION and it is pretty much complex for banks, in the sense that they have to “fight” in two fronts: the digitization and the digitalization. If the former front is intuitively understood, perceived and consequently translated into well-defined operational strategies, many years ago with the proliferation of internet, the latter one is far more arduous, long-lasting and risky, up to the point of business survival.

## II. ASPECTS OF DIGITAL BANKING

- Digitization, which is an optimization opportunity and it uses digital means to make more efficient and effective and optimize existing resources and processes, and this approach can bring cost-reduction and increase agility,
- Digitalization is a business opportunity and it uses digital assets and capabilities to create new services that are valuable to the customers, which can bring differentiation, business innovation, and new revenues.

## III. EVOLUTION

The earliest forms of digital banking trace back to the advent of ATMs and cards launched in the 1960s. As the internet emerged in the 1980s with early broadband, digital networks began to connect retailers with suppliers and consumers to develop needs for early online catalogues and inventory software systems.

By the 1990s the Internet emerged and online banking started becoming the norm. The improvement of broadband and ecommerce systems in the early 2000s led to what resembled the modern digital banking world today. The proliferation of smartphones through the next decade opened the door for transactions on the go beyond ATM machines. Over 60% of consumers now use their smartphones as the preferred method for digital banking.

The challenge for banks is now to facilitate demands that connect vendors with money through channels determined by the consumer. This dynamic shapes the basis of customer satisfaction, which can be nurtured with Customer Relationship Management (CRM) software. Therefore, CRM

integrated into a digital banking system, since it provides means for banks to directly communicate with their customers.

### **CHANNELS OF DIGITAL BANKING:**

Digital banking is offered through different channels to bring maximum customers under its ambit. Different channels are needed as the preferences vary from customer to customer. There are mainly four digital channels for customers to carry out their transactions and interactions with the bank. They are

- i. Automated Teller Machines (ATM), Cash Dispensing Machines (CDM) and Payment Cards
- ii. Online (Internet) applications
- iii. Mobile (including UP ibased) applications and SMS and Contact Centre/ IVR

### **COMMON IDEAS, BETTER IDEAS, NEW IDEAS:**

Digitalization creates new value based on digital assets and capabilities. Most banks are working on the first aspect, but have the opportunity to further develop the second one as well. Indeed, digitalization goes beyond simply substituting analog or physical resources with their digital counterparts. Digitalization captures the notion of digital evolution to change business models and the relationship between customer value and company revenue. But why are banks increasingly and incessantly turning digital? There are numerous reasons which could give some explanations for this behaviour, but probably the most important and influencing elements, causing a deep impact on the digital transformation of financial services are the following trends:

### **NEW TECHNOLOGY IN DIGITAL BANKING:**

The swift development of new technologies, Internet, smartphones and tablets, in less than 10 years, along with the challenge of new entrants (operating digital only products and services) and new models, adds a new dimension to the changing role of banking.

Technology companies and start-ups rapidly expand their activities to financial services, continually innovating and competing or collaborating with banks and other financial institutions in various segments of the financial markets or in activities that do not specifically require a banking licence. This contributes to pushing banks to rethink the way they operate.

### **NORMAL USAGE:**

1. Automated Teller Machines (ATM) and Cash Dispensing Machines (CDM) are the preferred choices of majority of customers for withdrawal and remittance of cash respectively.
2. Online (Internet channel), Mobile (SMS) channel, Contact Centre/ IVR Channel for
  - a. Opening and closure of accounts, enquiry and finding out eligibility of loans, application of loans and for seeking financial advice.
  - b. Carrying out transactions, gathering transaction details and service requests like request for debit/credit cards, stop payments, chequebook request etc related to account
  - c. Availing third party services like Income tax filing, ticket booking, hotel booking etc
  - d. For receiving alert and for paying bills.

### **BENEFITS DERIVED BY CUSTOMERS FROM DIGITAL BANKING:**

- Convenience of banking anywhere and anytime
- Simplified transactions
- Secrecy of transactions, even without intervention of bank staff
- Innovative products and services offered by banks
- No trips to branches or queues leading to reduction in expenses and time saving

### **BENEFITS THAT BANK DERIVES FROM DIGITAL BANKING:**

- Customer delight through innovative products and services
- Better customer focus by harnessing technology that predicts customer demands and preferences
- More customer loyalty by offering personalized offers and services at the convenience of customers
- More business by offering customer specific products by adopting analytics
- Better profitability by reducing dependence on physical branch network
- Meeting regulatory requirements through transparency and disclosures
- Facing the challenges being caused by innovative fin-tech solutions.
- Achieving businesses targets and reach in a highly cost effective manner.
- 360 degree view of customers by collating data from banks records, social media and other public domain.
- Acquiring new customers, especially young to ensure future business prospectus

- Operational efficiency by maintaining accurate data and reliable management Information System

#### IV. DIGITAL CHALLENGES FOR BANKS

Launch a digital brand that's separate from a bank's existing brand, allowing the bank to separate its digital offerings from the rest of its services and provide an entirely different experience and pricing structure to its online customers.

Modernize the digital experience so it more closely resembles all the other digital experiences the bank's customers are having. Add new digital capabilities that go beyond Internet banking and mobile banking to de-liver new types of digital assets. Fin-Techs with their innovative business models like crowd funding, P2P, P2P and B2B, along with disruptive technologies are seriously questioning the banking business model, notwithstanding the fact that it has been for banks which have been pioneering the use of computers and information technology. The attack is hugely asymmetric, as fintechs are not regulated like banks, but allowed to compete by using similar principles, devices and DIGI

However, risk and reward walk side by side, and banks could reap considerable profits, if they adapt swiftly to the actual trend. As McKinsey suggests it in a recent research... "that digital laggards could see up to 35 percent of net profit eroded, while winners may realize a profit upside of 40 percent or more.

#### EMERGING FORM OF DIGITAL BANKING SOLUTIONS:

- BaaS - Banking as a Service (allows for third party integration)
- BaaS - Banking as a Platform (for integrating core systems with software)
- Cloud-based Infrastructure (allows less reliance on IT staff)
- White Label Banking (such as co-branded credit cards.

#### FUTURE FORM OF DIGITAL BANKING:

The decision for banks to add more digital solutions at all operational levels[7] will have a major impact on their financial stability. While not all banks are in a position to make quick changes to IT infrastructure or the architecture on top of it, banks aiming to be disrupters can move toward broad end-to-end automation can do so over about a six-month time frame.

#### V. PROS AND CONS OF DIGITAL BANKING

##### PROS:

- Idea's N (Idea Internet Network) will see the light of the day
- Digital India initiative helps people connect around the country through technology
- Financial issues can be handled sitting at home
- The flexibility for students to be able to study increases by a great amount
- Information can be gathered sitting at home
- Emergency situations can be handled by utilizing the internet and the respective contacts can be gathered as well
- The need for documentation is reduced
- Transparency increases
- Work from home can be done in the fields like Freelancing and other part time opportunities
- Bank accounts can be accessed from home

##### CONS:

- The vulnerability to hacks increases
- The rural people might find it a really hard transition
- Confusion while using the digital payment methods might lead to deception
- The rate of cyber crimes would increase to a drastic amount due to the lack of awareness.

#### VI. CONCLUSION

As we discussed and commented the banking sector system was mostly focused on transactions and handling money and today, banking has moved from transactions to experiences, which are based on data managing - the more insight you glean from the data, the better your ability to deliver engaging client experiences". We think of digital not as a channel, but as the new way of banking, and digital bank not only includes extensive guidance and background on the digital revolution in banking and tracks the innovations and how the mobile internet is changing the dynamics of consumer and corporate relationships with their banks. Financial in-situations must make a business transformation, investing in progressive renovation of their legacy systems to provide the digital services demanded by the emerging generation, while still mitigating reputational and regulatory risk.

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