

A Study on Impact of Pandemic on Digital Banking in India

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Abstract

Indian banking industry is witnessing a transformation in the delivery of services. Digital banking is occupying the place of physical banking and digitalization of operations is changing the structure and format of traditional banking in India. Intense competition, impact of globalization and privatization has compelled banks to modify their strategies and policies to meet with high standards of performance. Indian Government is too ambitious to realise the dream of 'Digital India' and through various programs they are moving in the direction of the same. The banking has been made easy with the implementation of self-service technologies. Data shows that there is an upward trend in usage of digital banking technologies. ATM, Debit and Credit cards, POS terminals, mobile banking and electronic wallets are showing increasing trend but there are certain bottlenecks in the way to implement these digital tools. Lack of digital literacy and fear of cyber-crime are some of the biggest challenges in the way to the growth of digital banking. Further due to pandemic there seems to be an increase in the usage of digital banking. Pandemic has created the opportunities for digital banking. Banks too are taking stringent actions to provide the first class experiences to their customers and to assure them about the security of their transactions. In future artificial intelligence, machine learning tends to be prevalent in digital banking. Neo banks are developing in India and waves are blooming in favour of digital banking. In view of above circumstances the paper presents the digital trends in India pre pandemic, impact of pandemic on digital banking, challenges inherent in it and initiatives of banks to encourage the digital banking and cope up with obstacles.

Key words: Traditional, literacy, bottlenecks, stringent, blooming, pandemic, obstacles.

INTRODUCTION

Technology has completely revolutionized the standards of operations and services of banking industry. The inception of self-service technologies in banking sector has transformed the traditional methods of providing services. Now a days there is dominance of customer centric approach in every field. Moreover today customer wants to retain full control on service transactions and wants to manage the banking operations himself without involvement of service employee in the process. In order to rationalise the costs and to survive in this competitive era, the banking industries are compulsorily moving towards the digital platforms powered by technologies. In order to fulfil the dream of “Digital banking” many innovative models are being adopted by banks which have made the various processes easy and transparent.

Self- service technology channels in the banking industry include Internet banking, ATM, Mobile banking and telebanking. These channels have made it possible for customers to withdraw money, transfer the fund anywhere anytime as they want, 24x7 banking from any place, less waiting time, lower cost of transactions and no need of teller’s services. The banks too are benefitted by these channels as there is less workload on branches and reduction in various overheads. Being fascinated by advantages of digital banking, the banking sector is making significant investment in strengthening the digital infrastructure. Also the Government of India is creating a constructive digital ecosystem for successful implementation of these digital technologies. Data shown by various reports and RBI exhibits the increasing trend towards the use of digital self- service banking. Digitalization of banking which began in 1980s definitely has travelled a long journey but still it has to cover a long way especially in a developing country like India. People in India are having certain mental blocks in their minds with regard to adoption of digital platforms for banking but in present scenario of covid-19, the policymakers are witnessing a shift from the traditional banking to digital banking. Subsequently there is a rising trend in online banking transactions and digital payments as the norms of social distancing and safety are to be maintained. Various Government agencies, banks and financial institutions are taking the stringent actions to meet the upcoming demands and challenges of digital banking. The present paper is an attempt to study the trends in digital banking in India before Covid-19 and the impact of pandemic on digital banking. Moreover the paper also studies the challenges for digital

platform in India and steps taken by the banks to promote the usage of online banking and various digital tools.

Objectives of the paper

- To study the trends in digital banking in India
- To understand the impact of pandemic on online banking and digital tools
- To identify the challenges regarding adoption of self- service technologies in banking
- To study the initiatives taken by banks and Government to promote the use of digital banking.

Research Methodology

The present paper is descriptive in nature. Moreover secondary sources of information are used such as RBI bulletins, various reports by Government and private agencies, articles in newspapers, blogs of financial analysts' etc. The information was extracted by carefully scanning of the above mentioned sources. The exact impact of pandemic on digital banking can be evaluated once it's over. In the present scenario we have to see the on-going trends in usage of online banking and digital tools.

Trends in Digital Banking

In India, the banking sector initiated to use information technology in 1980s to perform some of the basic functions like book keeping and auditing. At that time it was confined to the back end operations. Later on the technology covered the core banking solutions but the actual phase of transformation from the conventional banking to convenience banking started in 1990s when the waves of liberalization, privatization and globalization were blowing. During this time many private and international banks were seen to exist in Indian banking industry and these banks brought technological innovations in Indian banking sector. From that time till now many self- service technologies have been introduced and applied to improve the overall banking experience. The banking has become simpler, easier, paperless and signature less with the adoption of these technologies. ATM, Internet banking, Mobile banking, Electronic money transfer (IMPS, NEFT, RTGS), Wallets and Debit and Credit cards have increased the pleasure of banking. Digitalization in banking certainly has reduced the overheads and made the banking processes more efficient. Moreover enhanced value

addition with more revenue and customer satisfaction has also been possible with application of these technologies.

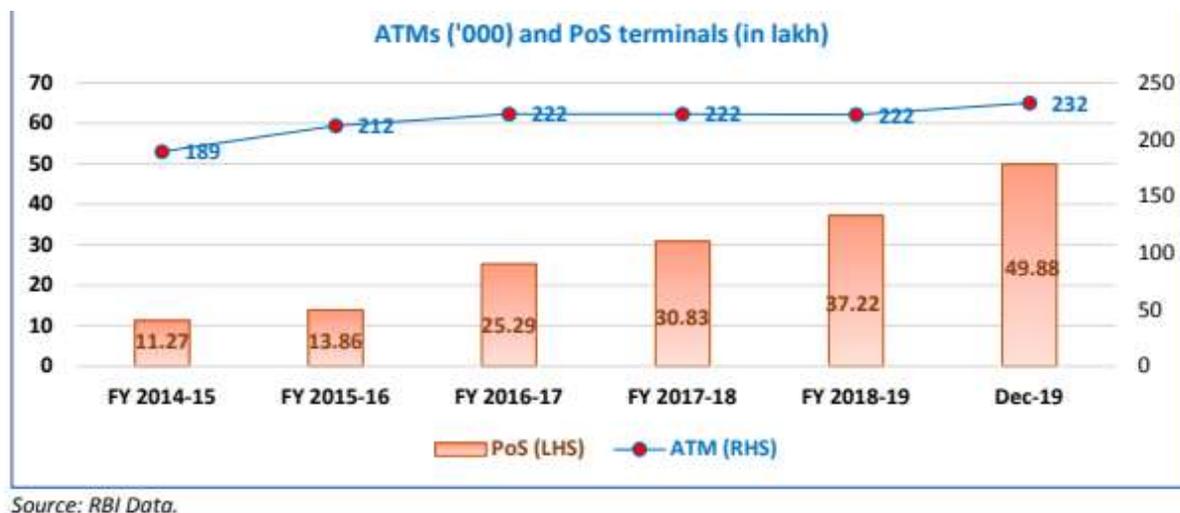
ATM

Automated teller machines are one of the widely used channel of digital banking. ATM is used for withdrawing money, depositing money, balance inquiry, pin generation, online purchasing etc. From setting up the first ATM in 1987 till now, all banks have covered the market by deploying ATMs all over India. Although the cash withdrawals from ATM in India has increased over the past five years still the inclination has been moving towards digitalisation as its evident from the RBI report that ATM withdrawals have been growing more slowly as compared with digital payment transactions .ATM withdrawals have been growing at a CAGR of 9% and 10% respectively in terms of volume and value. Moreover the infrastructure for ATMs is also showing a decreasing trend just at a CAGR of 4% over the last five years. The numbers of ATMs in country are decreasing despite of increase in transactions. As per the data India still has the fewest ATMs per 100000 people among BRICS Nations. The PoS terminals across the country are growing at a CAGR of 35% which is much higher as compared to number of ATMs which clearly shows the attraction towards the digitalization. Moreover the projections are that ATMs will show a decreasing trend in future as ATMs operators are not able to cover up the cost of software and equipment up gradation as mandated by RBI for security purposes.



Source: RBI data

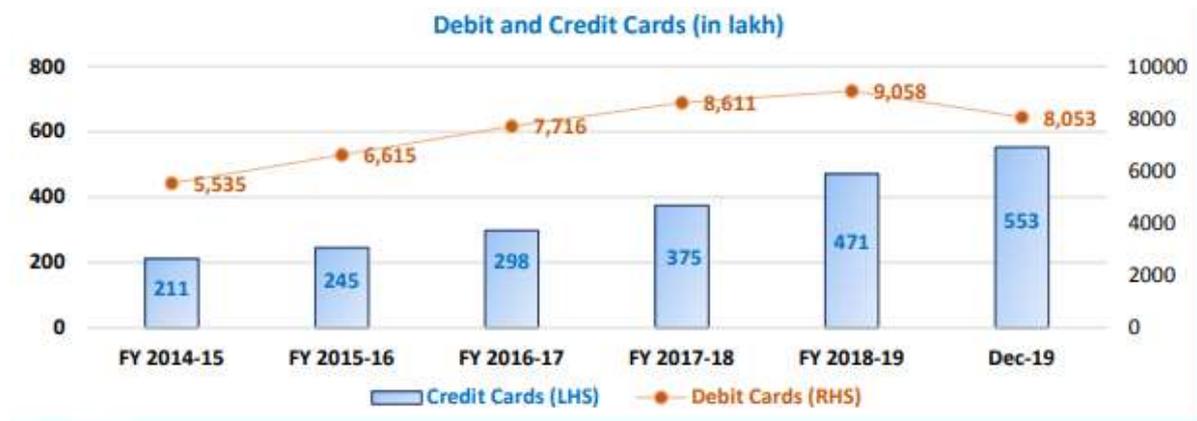
The above chart shows the cash withdrawal from ATMs over the last five years which clearly shows the increasing trend but the growth rate at a CAGR of 9% in terms of volume is still low as compared to CAGR of 61% in digital payment transactions.



The above chart shows the number of ATMs and PoS terminals from 2014-15 to Dec.19. The ATM infrastructure is growing at a slower pace at CAGR of 4% only whereas the PoS terminals are increasing at a CAGR of 35% over the last five years which clearly indicates the shift towards non-cash infrastructure.

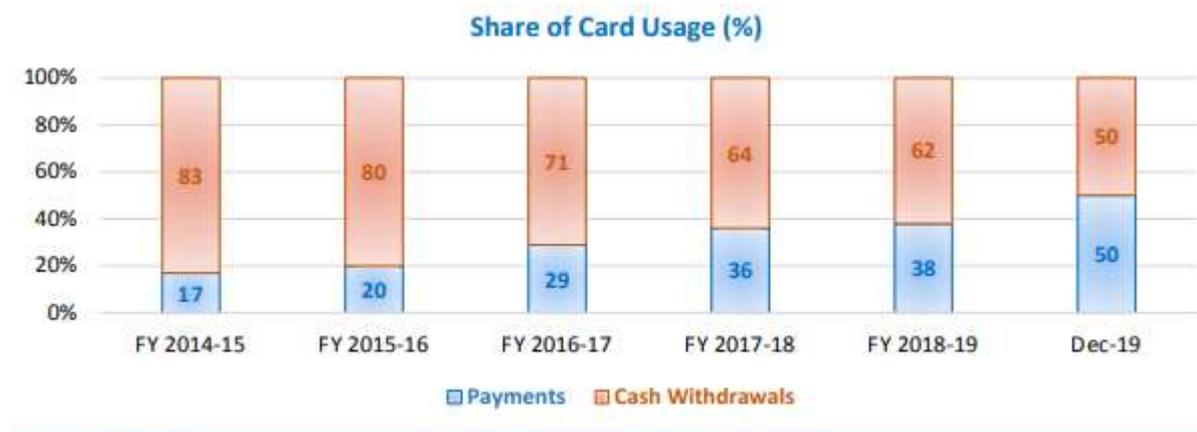
Debit and credit cards

Debit and credit card usage is increasing day by day after demonetisation. These both are considered the most reliable mode of digital payments as 50% of the total volume of payments is conducted through these. The Government expects to achieve a target of 45 billion digital transactions in FY20 as against the 31 billion transactions in FY 19. The chart below shows the number of debit cards and credit cards issued during the last five years. The number of debit cards has increased from 5535 lakh in 2014-15 to 8053 lakh till Dec.19 besides the increase in credit cards from 211 lakh to over 550 lakhs in same period. Banks converted the old magstripe cards to EMV Chip and PIN compliant cards by Dec.2018. .Subsequently old cards were deactivated and expelled from the system and outstanding debit cards show a decreasing trend in 2018-19. The PSU banks were consolidated and further contributed to this dropping trend.



Source: RBI Data

The payments based on debit and credit cards showed an increasing trend in last five years as a CAGR of 44% and 40% in terms of volume and value were recorded. The table below depicts the card usage trend which indicates that cards are being used for payments in addition to withdrawing cash through these.



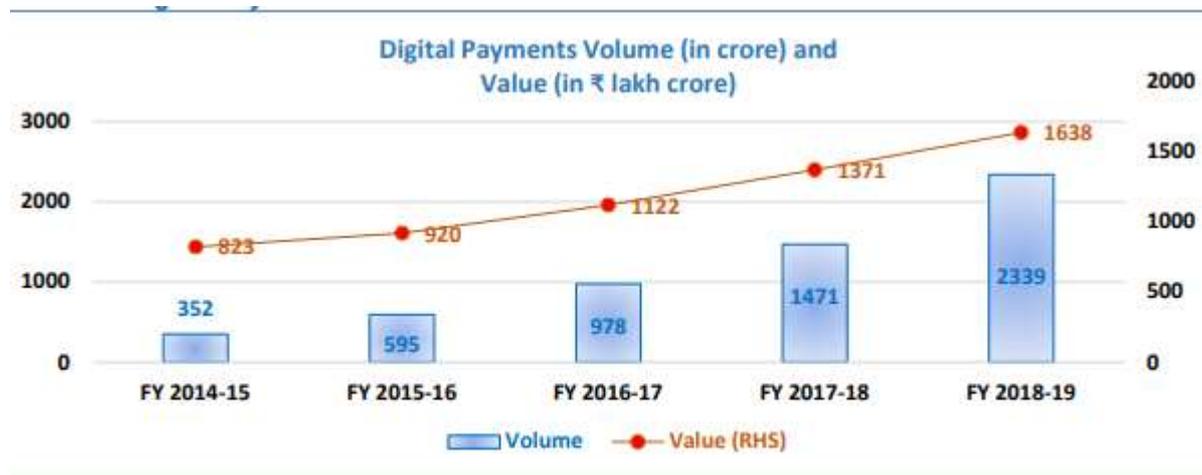
Source: RBI Data

The table shows that till Dec. 2019 the cards are equally used for cash withdrawing as well as for payments and indicates the trend towards digitalization.

Digital payment trends

The Indian economy is witnessing a transition from physical cash to digital payments methods. Various electronic payments modes like NEFT, RTGS, IMPS, UPI, ECS and NACH are showing an increasing trend and growing at a rapid growth rate. These digital payments modes are growing at a CAGR of 65% and 42% respectively in terms of volume

and value. Wallets and prepaid cards are also exhibiting an increasing trend with a CAGR of 96% and 78% in terms of volume and value. The following table demonstrates the trends



Source: RBI Data

The digital payments have increased from 825 lakh crore in 2014-15 to 1638 lakh crore in 2018-19 in terms of value moreover in terms of volume also it has increased from 352 crore to 1638 crores during the same period. According to a report by Razorpay states that digital transactions increased by 383% in a period of one year till September 2019. Among all the payments modes UPI recorded a 222% growth in year 2019. Moreover share of wallets also showed a double growth from 0.8% to 1.6%. The IMPS transfers too exhibited a volume growth of 73.6% in 2018-19.

The trends shown truly depict that Indian banking customers are shifting from traditional banking to digital banking. It's evident from the data that after demonetization there has been a significant increase in adoption of various platforms for digital banking.

Impact of pandemic on Digital banking

The digital banking has been adopted aggressively in this Pandemic period. Moreover it has become a necessity nowadays which was once adopted for convenience purpose. The adverse effect of pandemic has affected various sectors differently. Auto industry, retail, aviation, tourism, hospitality and entertainment are some of the worst affected sectors. Digital payments in these sectors have also been influenced by lockdown due to pandemic. On the other hand some of the areas which have shown an increasing trend in adoption of digital payments are online grocery stores, online pharmacies, Ed Techs, recharges and utility bills payments etc. The Government and NPCI have constantly requesting the people to adopt

digital payments channels. Moreover with growing internet penetration and low cost data plans also prompted the adoption of digital technologies in banking. Moreover people are having the psychological fear that physical cash will transmit the virus, due to the phenomenon card transactions, electronic wallets, electronic fund transfer, UPI transactions are showing an increasing trend. The initial ten days of April during lockdown cash withdrawals from ATMs more 1.5 times the average withdrawals. Moreover the banks too maintained more cash in the ATMs. HDFC bank retained 50% more cash in their ATMs, PNB too kept three times more cash in the ATMs. Banks too waived fees on cash withdrawals from third party ATMs. As more people are inclined towards the digital transactions, ATM transactions will show a decreasing trend. These trends clearly depicts that the outbreak will eventually lead to “temporary drop” in ATM number for 2020 but in the forthcoming years most countries will witness a rise in ATM numbers. In India ATMs number are at a stagnant stage and interest towards digitalisation has further deteriorated the growth graph. Moreover banks and ATM operators are not able to cover up the cost of software and up gradation as mandated by RBI to ensure security for the customers. On-line card transactions will show upward tendency as due to the fear of transmission of virus via physical currency mode. Wallets and UPI payment transactions are on a rise for essential services and payment of bills. Fund transfers through digital channels will show an increasing trend such as IMPS, NEFT, RTGS etc.

The most significant aspect with regard to digital banking was adoption of digital tools which was not an easy task with text to Indian population. The people were hesitated to adopt the online banking tools and self-service technologies in banking but with the pandemic situation, behavioural changes are being seen in customers and they are adopting the digital tools in banking field. Moreover in pandemic people developed a tendency to conserve cash and spent less in March and April. As travelling comes to a halt in lockdown and with less spending due to lockdown, HDFC and AXIS banks have noticed a reduction in average credit cards spending by more than 25%. The impact of pandemic is going to transform the purpose of digital banking from servicing to customer involvement and engagement. More services and products will cover up under digitalisation of banking transactions and they will get more customized solutions. Definitely pandemic has changed the concept of product centric approach to consumer centric approach by adopting new technologies and cultures. Moreover banks are able to reduce operational cost of physical branches by these technologies.

Initiatives Taken by Banks

The pandemic crisis will be an evaluation matrix for banking sector on the grounds of digital transformation as digital tools have become the first priority for customers. Banks too are taking a lot of steps to encourage digital banking among customers. Banks were already taking steps in the process of digitalization in a phased manner but due to the situations of pandemic they compulsorily have to scale up the operations in this direction. In the time of pandemic contactless payment through QR code and SMS link are being promoted to avoid the spread of virus. Government is also encouraging digital banking as monetary benefits and financial assistance is being provided through direct benefit transfers. Banks are taking online queries from customers. Moreover to help the senior citizens door step banking too has been allowed and Mobile ATMs have been deployed. New softwares have been adopted for chats and messaging to assist the customers. Banks are collaborating with various Fintech companies to provide the world class experience to their customers. Virtual assistants are replacing the traditional physical assistance. It is expected in Europe that 50% of the branches will not be opened post covid. Moreover banks are trying their best to impart training regarding the usage of digital tools through live interactions through video collaborations. This is the high time to embrace neo technologies in this pandemic. Artificial intelligence and machine learning are taking place in new business models for digital delivery of banking products and services. Banks are required to make investment in digital infrastructure and capacity for maintenance of service quality standards. Insta digital accounts are being opened by customers themselves and the link for that has to be given to banks. Banks have simplified the processes for unsecured loans and credit cards as no presence is needed in branch and these processes are online and paperless. Virtual cards are in trend and being issued by banks for usage. Card less withdrawals have also been made possible in this pandemic. The banks have also waived off the fees for ATM withdrawals and fund transfer (RTGS, NEFT, IMPS). Moreover Neo banks are emerging in Indian economy i.e. fully digital banks. 2020 is the year meant for the growth of these banks. Neo-banking market is growing at a CAGR of 50.6% during the time periods of 2016-2020 and it's expected to reach \$50.6 million in this particular year. Pandemic has certainly contributed to the growth of Neo banks in India but in India still these banks are not 100% digitalised due to the regulatory norms of RBI.

Challenges in the way of Digital Banking

The digital banking has completely transformed the ways the banking operations are performed. It's now become easier to perform the banking tasks at our own without the help of any teller and service employee. The pandemic has created opportunities for banking sector to excel in these digital tools and provide a sound infrastructure for digital eco-system. Behavioural changes are also impacting the adoption of digital banking. The customers are changing their mind set to indulge in online banking for the sake of convenience and moreover safety in this pandemic. But the road to digital banking is not smooth especially in Indian circumstances. The biggest challenge in the development of digital banking is conductive digital infrastructure. In India banks are still not equipped with digital tools to provide the best experience of digital banking. Lack of digital literacy among bank customers is another bottleneck in the way of digital banking. Another major issue in the way of digital banking is the cybercrimes and frauds. Cybercrimes come at third rank in common crimes in India. The cyber criminals and hackers are targeting various customers who are using online banking. As per the data released by RBI 52,304 cases of fraud have been reported comprising 149 crores. In fiscal year 2019, the most of the frauds are prevalent in ATM transactions, debit and credit cards usage, transactions through internet banking. There are a number of incidences of phishing attacks extracting precious money from accounts of customers. Moreover, customers are still having preference for traditional banking. It's really difficult to change the mind-set of customers regarding traditional banking habits. Poor internet connectivity in rural areas and lack of commitment on behalf of bank are some of the other challenges in Indian banking scenario.

Digital banking frauds constitute half of the all types of banking frauds in India. People are having fear of getting victims of information theft and malware attacks. There has been an alarming increase in fake calls from hackers regarding CVV and OTP numbers. Moreover incidents of cloning of debit and credit cards are also being reported.

The fraudsters too are inventing advanced technologies to attack the digital payment ecosystem. Even the fraudsters are attacking on web application of companies and changing the contact details of retail store or super market. Customers are dialing the fake customer numbers. In the three months of pandemic McAfeereported the number of bogus websites increased from 1600 to 39600 which is a sign of alarming cases of cybercrimes. RBI is taking stringent actions to aware customers regarding security measures amid pandemic. Banks are

reconstructing their fraud management strategies in light of increasing frauds and regulatory instructions. It has been made compulsorily by the RBI for all the banks to submit Fraud Monitoring Return in all fraud cases within three weeks of the fraud being detected. A helpline number 14440 is also being launched to report the fraudulent activity in customer's bank account.

Conclusion

The pandemic and on-going circumstances have given a certain boost to online banking and self-service technologies in banking sector. But the grey side is that fraudsters and criminals have too found the innovative ways to dupe the customers. One major impact which is being reflected is the change in the mind-set of customers towards digital banking. Banking customers are no more reluctant to use the digital tools and perform the banking operations themselves. Banks too are taking concrete steps to take care of the digital banking ecosystem. The wave of transformation from traditional banking to digital banking has already being started pre-covid and it is visible in the data released by the RBI and other regulatory authorities. But it's also evident that pandemic has helped in creating a favourable environment for digital banking. In India customers still have taste for traditional banking but due to safety parameters they are moving toward online banking. Home Ministry is also taking stringent actions and assisting the people against financial crimes through social media platforms. Cyber Dost through twitter platform is giving security tips on usage of online banking. Banks too are adopting different mechanisms to warn the customers regarding various crimes and guide them not to give their card number, OTP, CVV, and PIN to anyone.

The future looks to be promising for the growth of digital banking. Neo banks are in the process of development. Banks are doing partnerships with fintech companies to deliver the best experiences to customers and enhance the functional areas of digital banking. More innovative processes and technologies are adopted to provide the secured mechanism for payments. Contactless payments systems are to be generated. Codes have replaced cards through EMV technology. Biometric authentication can enhance the reliability and security of digital transactions. Mobile point of sales is a new technology being revolutionized which is giving flexibility to merchants to visit different places like trade shows, concerts and accept payments from customers. Moreover our generation is tech-savvy and will prove blessing in the way of development of digital banking. The research will help in further evaluating the impact of pandemic on adoption of digital banking and customer satisfaction and loyalty.

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