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Research Paper

Digital Banking: Perspectives & Challenges

Management

KEYWORDS : digital, banks, ecosystem, productivity.

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ABSTRACT

In the backdrop of phenomenal potential of digitization of the processes across various sectors, Financial Services sector as a whole & Banking in particular is on the verge of becoming Digital. After all that's where the future of banking lies. Banks have started incorporating digital strategies in general. Moreover, deliberate adoption of disruptive model in people & IT-the two engines of retail banking-would deliver better results.

Introduction:

"Customers have been spoiled. Thanks to companies such as Amazon and Apple, they now expect every organization to deliver products & services swiftly with a seamless user experience".[1]

Digitization… What exactly?

Most of the organizations today, worldwide are rushing to become more digital. Meaningful & sustainable definition of digital should be seen less as a thing & more a way of ***doing things***[2]. Being digital in a true sense is unlocking the future potential of growth as of today or more. Further, it allows business leaders to develop a shared vision of how it can be used to capture value of greater proportions.

Digital Banking… Why?

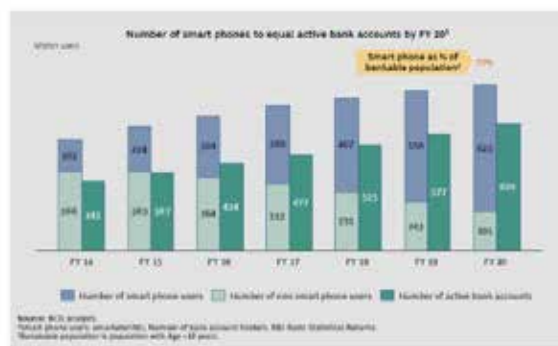
Advancements in digitization of processes have been profoundly impacting business globally. Also at personal level technology, social media, mobility has made paradigm shifts in the manner in which the customers wants to be served. Digital adaptation for banks started off as an option earlier but evolved into a necessity in the context of proactive regulatory reforms, a rapidly expanding Unique Identity project & an ambitious vision for Digital India by the party in power in India. The entry of small banks, payment banks & non traditional players has created multiple disruptions for the banking industry in particular. In this scenario, Digital Banking has unleashed an huge opportunity to attract new customers, lower costs, develop new propositions & business models & also explore customer value to its maximum[3].Seamless integration of technology has become imperative & cheap now rather than interventions in HR practices. It would lead to enhanced productivity for banks & better experience for customers.

Perspectives of Digital Banking:

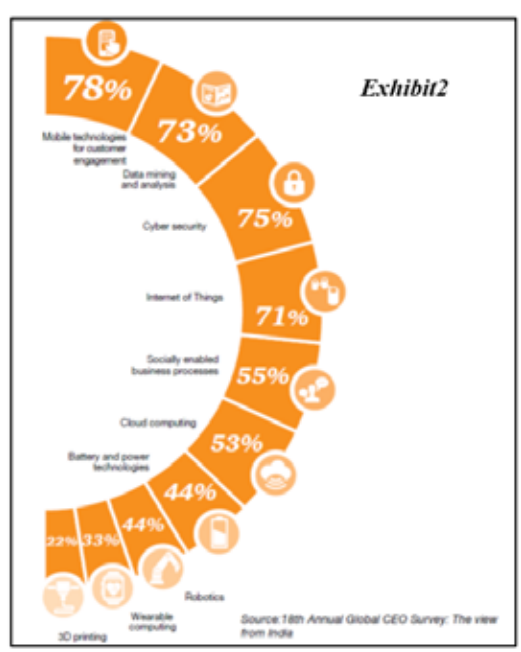
Most of the banks began their *Digital Journey* years ago &now have clear digital strategies for two scenarios.. ***Digital out*** - a scenario, where a '*here & now*' customer, seeks consistent engagement across all channels (platforms) of connectivity on a real time basis. Secondly, ***Digital in*** – scene in relation to process digitization which would lead to reduced cycle times, fewer exceptions & faster throughput -resulting in better efficiencies. Thus, by being digital the roles in banking have evolved rapidly & made the banks to be ahead in customer service

Technology has made rapid strides in our country. Affordable smart phones & high bandwidth access will reach an unpredicted no. of Indian consumers in the coming years. Also Indian Govt., vision of Digital India will see a

Exhibit 1



new digital consumer emerging across the Indian market. As shown in Exhibit 1, by 2020 no. of smartphones users would equal the number of active bank accounts in the country which would be 70-80% of the eligible population who would later turn out to be the prospective customers engaging through the digital medium.



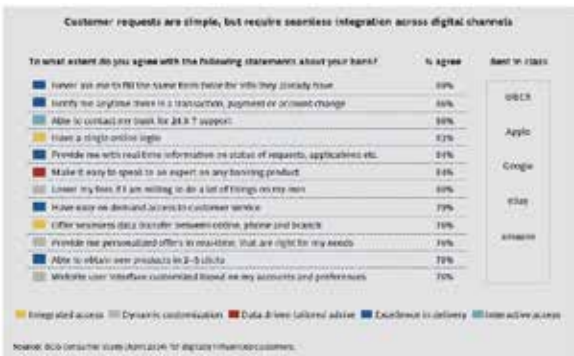
Accordingly mobile technologies are the areas for strategic focus areas for better customer engagement. With the number of mobile users growing at a CAGR of 91% from 2012 to 2016, india

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CEOs believe mobile technologies are the strategic focus for better customer engagement.

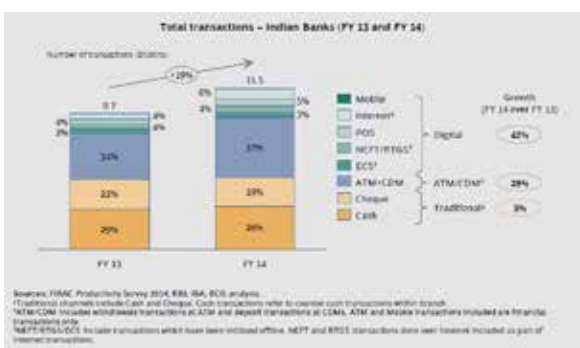
Further, along with *Advancements* in technology, customers are also being driven high by their experience with non bank digital companies as clearly shown in the exhibit below.

Exhibit 03: Customer Expectations being driven very high by their experience with Non-Bank digital companies.



Also it is evident from Exhibit 4, the *Growth rate in transactions* between FY 2013 & FY 2014 being carried out across various available digital channels shows a high percentage of transactions by way of online mode.

Exhibit 4: Massive growth in Digital Transactions followed by ATM/CDM

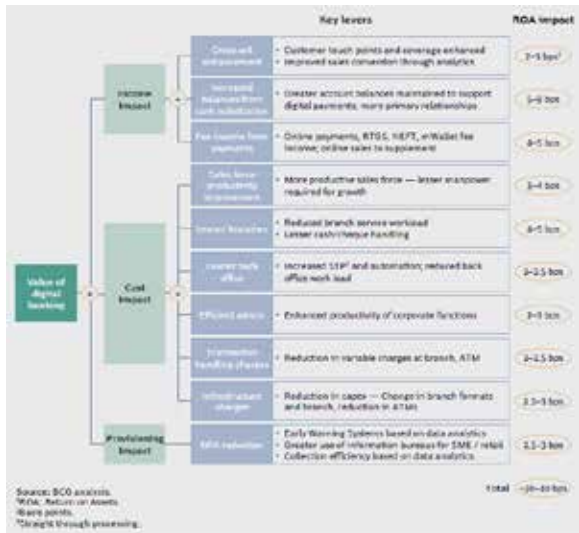


Consequently, banks need to undergo a complex *Transformation of their mindset* in respect of the processes so as to harness digital technologies fully. The steps being as follows:

- Paradigm shift of focus of bank from being a *Deposit mobilizer-major* to being *Payments –major.*
- Making the digital channels as core channels of doing business
- Lead the customer to make best choices for himself by using Data analytics
- Make the disbursal process paperless & reduce the decision lags.

Finally, following exhibit explains the manner in which the banks can enhance their <u>*Productivity*</u> to a greater extent & increase their returns by 0.3-0.4% & also make their products (loans) competitive by 1.0-1.5% -the ***JUST MODEL*** for business *i.e.* making your product competitive & profitable simultaneously.

Exhibit 5: Digitization can enhance Banking System ROA[1] by 0.3-0.4%



Challenges of Digital Banking:

1) *Building an audience not customers***:**

By going the digital way of doing business, banks need to innovate on generating an audience rather than customers *per se* .Changing the mindset from being a product seller to an organization providing better user experience world ultimately lead the banks in productive customer acquisition & finally enhanced engagement. This can be done by:

- Providing customers/audience with initiatives interface, real time processing capability text & learn environment etc.
- Enter the market with 4/5 relatively simple products along with 1/2 "*hook*" products *E*.g., Competitively priced deposit or strong trading platform.
- Offer personalized web experience so that the audience can receive products based on their digital data (*viz* browsing behaviors)
- Develop website with rich content, paperless real time transacting ability & self -directed analytics
- Selectively *Gamify* certain aspects of banking functions, Collaboration between the banks, cross partners in the eco system & heterogeneous communities & integrated application for the maturity social media generation

2) *Flexibility:*

The ecosystem needs to be continuously agile and lean in nature so as to integrate with new & ever evolving market situations, social net working platforms, technology partners etc. The challenges lie therein in bank's adaptability to such ecosystem *i.e.* to say banks need to be open to innovations. Banks are finding it extremely challenging to make the organizational changes required to support digital initiatives than to adopt the technologies available to support them. Successful negotiations with respect to digitals cultural shifts would become a competitive differentiator for banks. Customer engagements, Relationship management, Communications & Leadership may ultimately differentiate digital leaders.

3) Fraud Litigation & Cyber Security

"As the digital channel in financial services continues to evolve, cyber security has become a business risk rather than simply a technical risk.[4]

In digital world, securing critical data means involvement of internal systems with extended ecosystem which would further amplify the security risks. Cyber crimes are often the order of

day now-a-days. Securities breaches damages reputation & destroy trust- the cornerstone of every business. Heavy & timely investments become mandatory to address the risks associated with IT system & also from extended business ecosystem.

*4) Emergence of Non- Banking Financial Institutions***:** *Payment banks*

Apart from cultural challenges, IT systems, there is also a challenge that is indirectly going to affect the performances of banking sector with the emergence of non- payment banks who have a nimble setup & whose roles are similar if not same. The nature of payment banks has been restricted on scalar propositions. Distinctly payment banks will contest with consumer transactions which include a customer profile of small businessmen, unorganized sector, low income households, farmers &migrant workforce which incidentally forms a population which is likely going to mobile savvy-ultimately leading them to shift to digitally enabled banks in the future.

Thus, by digitizing the process end to end, banks can improve on productivity per person, gain better customer insights, develop smaller products & enhance profitability.

Conclusions:

- Affordability of technology has increased its utility thereby leading to increase in volume of banking transactions.
- Enhanced user experience across various platforms of technology in different sectors has increased customer's expectations which incidentally are getting fulfilled.
- Volume of transactions has seen rapid strides across various online channels of banking.
- Improved efficiency has led towards substantial savings for the bank which can be detrimental in customer retention.

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