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Digitalization of Banking Sectors

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Abstract

The banking landscape as we know it is changing. A new wave of technology is revolutionising the way customers engage with their finances. The recent introduction of open banking and the Payments Services Directive 2 (PSD2) regulation is accelerating this transformation by placing power in the hands of customers. Such as spending habits and regular payments, with authorised third-party providers if customers wish to do so. To navigate this unchartered reality, banks must ensure their digital offering is fit for purpose.

Keywords: Digital Banking, Customer

I. INTRODUCTION

Digital banking is part of the broader context for the move to online banking, where banking services are delivered over the internet. Digital banking involves high levels of process automation and web-based services and may include APIs enabling cross-institutional service composition to deliver banking products and provide transactions. Digital banking is the digitization (or moving online) of all the traditional banking activities and programs that historically were only available to customers when physically inside of a bank branch.

II. OBJECTIVES

1. To understand about Digitalization of Banking Sectors.
2. To know about Digitalization of Banking Sectors.
3. History of digital Banking
4. Digitize customer experience.
5. Role of digitalization in Banking in India
6. Benefits of Customer
7. Digital banking trending in India
8. Scope of digital banking in India
9. Future of digital banking in India
10. Benefits of the bank

11. Major storm clouds on the digital banking horizontal digital transformation
12. Banking industry oversimplifying digital transformation
13. Decoding digital banking of future in India
14. Emerging technologies in banking in India
15. To provide conclusion based on the study about Digitalization of Banking Sectors.

III. METHODOLOGY

Details and Information for the purpose of the study was collected from the secondary sources viz., websites, published articles, thesis and dissertation, journals, magazines etc…..

Meaning of Digitization

Digitization is the process of converting data into digital format. Digitalization means the adoption of technology. But these two words are being used interchangeably.

Role of Digitization in Banking

- Banks are not just a part of our lives, but have a significant role in our daily lives. For many, day will not end without at least a single financial transaction. Thus banks always try to adopt latest technologies to enhance customer experience.
- Digitization is not an option for banking industry, rather it is inevitable because every industry is being digitized and banking sector is no exception.
- Mobile banking is increasing at a fast pace more than online banking.

Advantages of Digitization in Banking

- Improved customer experience.
- Reduction of costs for banks and customers as well by using ATMs, cashless transactions etc.
- With more digital data available with banks, they can take data-driven dynamic decisions by using digital analytics. This benefits both customers and banks.
- Technology is non-discriminatory. Everyone will be treated same at banks.
- Number of customers will be increased for banks because of the increased convenience of banking.
- Digitalization reduces human error.
- Need of handling large amounts of cash will be reduced.
- Opening and maintaining bank accounts are never been this easier.
- Repetitive tasks will be eliminated by automation.
- Rural and urban gap will be eliminated.
- With the increasing cashless transactions, fake currency threat will be reduced.
- Productivity will be increased.

Disadvantages of Digitization in Banking

- Digitalization reduces the effort of employees and hence results in loss of jobs.
- Some bank branches may cease to exist with the increasing use of online banking.
- Banks will be more vulnerable to cyber attacks.
- Privacy may have to be compromised. No one can hide crores of rupees in banks and just act middle class.
- These disadvantages are just temporary. Loss of jobs will be compensated through creation of new jobs such as cyber security, research team for innovation in technology etc.
- It's not that banks are going to have less work, but it's just that the role of retail banking sector changes.

Major Benefits of Digital Benefits

- Business efficiency - Not only do digital platforms improve interaction with customers and deliver their needs more quickly, they also provide methods for making internal functions more efficient. While banks have been at the forefront of digital technology at the consumer end for decades, they have not completely embraced all the benefits of middleware to accelerate productivity.
- Cost savings - One of the keys for banks to cut costs is automated applications that replace redundant manual labor. Traditional bank processing is costly, slow and prone to human error, according to McKinsey & Company. Relying on people and paper also takes up office space, which runs up energy and storage costs. Digital platforms can future reduce costs through the synergies of more qualitative data and faster response to market changes.
- Increased accuracy - Traditional banks that rely mainly on paper processing can have an error rate of up to 40%, which requires reworking. Coupled with lack of IT integration between branch and back office personnel, this problem reduces business efficiency. By simplifying the verification process, it's easier to implement IT solutions with business software, leading to more accurate accounting. Financial accuracy is crucial for banks to comply with government regulations.
- Improved competitiveness - Digital solutions help manage marketing lists, allowing banks to reach broader markets and build closer relationships with tech savvy consumers. CRM platforms can track customer history and provide quick access to email and other forms of online communication. It's effective for executing customer rewards programs that can improve loyalty and satisfaction.
- Greater agility - The use of automation can speed up both external and internal processes, both of which can improve customer satisfaction. Following the collapse of financial markets in 2008, an increased emphasis was placed on risk management. Instead of banks hiring and training risk management professionals, it's possible for risk management software to detect and respond to market changes more quickly than even seasoned professionals.
- Enhanced security - All businesses big or small face a growing number of cyber threats that can damage reputations. In February 2016 the Internal Revenue Service announced it had been hacked the previous year, as did several big tech companies. Banks can benefit from extra layers of security to protect data.

A digital bank represents a virtual process that includes online banking and beyond. As an end-to-end platform, digital banking must encompass the front end that consumers see, the back end that bankers see through their servers and admin control panels and the middleware that connects these nodes. Ultimately, a digital bank should facilitate all functional levels of banking on all service delivery platforms. In other words, it should have all the same functions as a head office, branch office, online service, bank cards, ATM and point of sale machines.

The reason digital banking is more than just a mobile or online platform is that it includes middleware solutions. Middleware is software that bridges operating systems or databases with other applications. Financial industry departments such as risk management, product development and marketing must also be included in the middle and back end to truly be considered a complete digital bank. Financial institutions must be at the forefront of the latest technology to ensure security and compliance with government regulations.

Digitalize Customer Experience

Impacts everything, and this impact is transformative. Digitalization is about taking full control of your customer-experience and managing all the needs, existing and new, for your customers and developing a business model accordingly. Customers drive this trend of digitalization, as they are aware of their needs and look for businesses that cater to and fulfill their end-to-end requirements. Customers have readily and effortlessly adapted to the digital world. Customers expect a seamless multichannel experience and a consistent, global service. They judge their experience on three levels: how well companies understand their needs; the simplicity of doing business, and; how delightful it is. There must be an obsession with customer experience and develop ways to steadily improve the experience and learn from every interaction.

Digitalize Operations Banks will become more digital! As customers, competitors, and even regulatory agencies push in this direction, the promise of anytime, anywhere banking with transparency and convenience will ultimately bring together all the elements of banking in the digital world. Banks need to identify opportunities by looking at the overall customer life cycle, focus on improving experiences and enable better customer services. Banking does not guarantee customer loyalty due to customer behavior. A fluctuation of loyalty has been noticed in the industry, furthermore loyalty is not the key answer, but it is experiences. Customer experience and customer service needs to be enhanced in a coherent way: from cross channel and multichannel to omnichannel. The practice of digital marketing and customer service strategies need to be engaged to acquire, retain and delight customers

Impact of Digitalisation on the Banking Sector

One of the tendencies in the banking industry is that the largest banks have invested a lot in digital and into the future, while many smaller and regional banks have more difficulties to keep up as they are more dependent on technology vendors. As a result, the market share is clearly moving toward the large players because they have more means.

As another by-product of the digital era of changes, the financial sector is under constant pressure from new Fintech disruptors. Given that the disruptors tend to be startups focused on a particular technology or process, they are more flexible and faster when it comes to adopting innovative solutions and offering more personalized user experience.

The Digital Banking Promise

Ideally, digital banking combines the benefits of two worlds: a new customer experience on the outside and an efficient, effective operating model on the inside—both enabled by digitization and the underlying technologies, processes, and structures.

On the outside, customers benefit from fair prices with increased transparency and comparability. Banks meet their needs with immediate, high-quality interactions, and transactions are performed quickly and securely. Purchasing a product no longer requires 14 days. Customers are proactively informed about a rich spectrum of personalized products and services, including financial advice, new opportunities, and peer comparisons. Overall, customers enjoy the banking experience, and they are happy to hear from their bank (or non-bank).

Making all of this possible will require support from the inside. The underlying operating model will need reshaping, with lean channel and organization structures in place to allow for fast processing. Decision and governance processes will need to be streamlined, with a new more-agile culture that has the right spirit to support a superior customer experience. An integrated IT infrastructure will be needed to meet all requirements, with fast computing to allow for super-fast processing. Last but not least, digital banking will change the way revenue is generated. As customer centricity becomes more important, deep customer insights will open up new sources of revenue, such as third-party advertising and customers paying for value-added services.

Banks on the Move

Banks are cautiously approaching these new challenges. While digitization is making internal processes more efficient, it is only slightly enhancing the customer offering with value-added services such as wallet solutions, personal finance management tools, and an omni-channel experience. Few solutions on the market are fully mature.

Only Small Steps So Far: Enhancing Products and Services

The first steps on the digital banking journey have been primarily focused on adding to the existing offering using new, technology-enabled services to increase the convenience and value for customers. The most prominent examples are mobile apps, e-wallet solutions, and personal finance management (PFM) tools (see figure 2). In particular, mobile banking and PFM are well received by consumers, with download rates reaching 60 percent of the customer base in most regions. For example, on the mobile banking front, USAA, a U.S.-based banking and insurance provider, recently released an app with a Siri-like virtual mobile assistant, which allows customers to use voice commands to navigate and complete more than 200 actions from their smart phones.

In Spain, Caixa Bank offers a bill-management PFM service called ReciBox. Compatible with computers, tablets, and mobile devices, the free service helps customers organize their bills, and if there is an unusually large bill or insufficient funds, ReciBox will warn customers via text message or email before funds are deducted from their accounts. However, few banks offer more advanced PFM tools, with functions such as peer comparisons, automated product recommendations, and predictive capabilities.

Other solutions such as artificial intelligence, video and chat functions for advisory services, crowd funding, peer-to-peer payments, and social investing are acknowledged but not considered mature. Some banks have more interest in these topics and have collaborated with technology companies to explore possible new business models. For example, Citigroup, Royal Bank of Canada, and Australia's ANZ Bank have all announced plans to work with IBM's Watson, the robot that made its name by beating humans on the television quiz show Jeopardy, to enhance customer advisory experiences.

Video advisory service is among the most controversial topics: While the United States and Nordic and Benelux countries strongly believe in this technology and customers are welcoming it, other regions such as Spain, Italy, France, and Germany are offering it to a less enthusiastic audience. In general, enhancements to the product and service portfolio are just beginning. The next level will certainly encompass more complex services based on insights from various sources, such as social networks, mobile devices, apps, and harmonized internal data. Leading examples can be seen in innovative financial technology players around the world.

For example, Vodafone and Safaricom created M-PESA to serve the largely unbanked Kenyan population. Users pay cash into their account at an agent, such as a gas station or supermarket, and then use their mobile phone to pay retailers or other individuals. M-PESA serves as an alternative to bank accounts and credit cards, which is especially appealing to the rural population.

In 2012, about a third of the Kenyan population used M-PESA. Another focus point will be more effectively leveraging crowd intelligence to support existing advisory offers. Today, advisory concepts still center around the branch staff, either physically or by video. The next level could go even further, using renowned industry experts and incorporating the opinion of several thousand customers. Similar to Amazon's automated next-best-product decision support systems, banks will use the purchase decisions of peers to help customers make a decision.

Consider social investing: There are already several financial technology companies offering social trading or investing services that allow customers to trade synchronously with top traders based on their track record and the number of followers. Although banks have not gone that route yet, they are positioned to take a leading role in the advisory-driven investment business. Depending on the success of the new players, banks will have to react in a timely fashion and adjust their offerings accordingly, but this is not expected to occur within the next few years.

Suggestions

- These above-mentioned disadvantages are just temporary. Loss of jobs will be compensated through the creation of new jobs such as cybersecurity, research team for innovation in technology etc.
- The security can be made tight by an advanced protecting system.
- The network and connections can be provided and the quality of network system should be improved.
- The government of India has to take care in making availability network throughout India.
- The process of digital banking should not be complex.

IV. CONCLUSION

With the increasing usage of smart phones, digitization of banking sector is inevitable to catch up the increasing expectations of the world. It indeed reduced human errors and increased convenience. But the fact that cyber threats are on the rise, banks must be very careful and should be prepared to handle cyber attacks. The decision for banks to add more digital solutions at all operational levels 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.

Many banks have a lot of work to do in the area of digitizing their processes. Even though the banking industry is slowly undergoing a rethinking, the customer's expectations are often already one step ahead of what financial institutions offer. The number of parameters to be taken into account in loan decisions is growing continuously, while at the same time the decision-making processes must be accelerated and made more transparent to guarantee profitability. A significant improvement can be achieved if credit applications are always processed in the context of the entire customer history. The corporate lending business particularly offers high automation potential. By using a digital loan template, complex structures and facts can be automated step by step and considerable acceleration in the loan processing can be achieved.

The mobile and wireless market has been one of the fastest growing markets in the world. The arrival of technology and the escalating use ofmobile and smart phone devices, has given the banking industry a new platform. This worldwide communication is leading a new generation of strong banking relationships. The banking world can achieve superior interactions with their public base if they accommodate all their customer needs. Conveniences of services plus outside locations like ATMS are crucial to every banks success. Meeting all challenges including safety and security are perfect examples of good banking strategies. Online banking is certainly here to stay. Online banking is a necessity for the bank's that we studied and others in order for them to stay in business. While its existence doesn't necessary give them a competitive edge because it is so common place, it is truly a cost of doing business. As we venture into the future, the internet will undoubtedly continue to change the banking industry.

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