

# A Study on Digitalization and Its Role in the Indian Banking Sector

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## Abstract

*Digitalization has become a buzzword today. It has progressed from physical clearing of checks to CTS technology, from bank brick and mortar models to mobile and online banking, and the introduction of BHIM and UPI services. Digitalization has become critical for the Indian banking sector, which has a tremendous impact on advancing financial inclusion and is primarily focused on delivering superior services to clients with the possibility of gaining more shortly. However, every sector has its version of digitalization that differently impacts the industries. This paper aims to identify the role of digitalization in the Indian banking sector. As a result of digitalization, Customer loyalty increases and eliminates human error. Customers now have access to banks at all times due to online banking. Managing large sums of money has also become more accessible. Digitalization has helped customers by making cashless transactions more convenient. Customers no longer need to keep cash on hand and can conduct transactions anytime and from any location. digitalization has resulted in significant cost savings and has assisted in generating income with the help of several methods. With the introduction of MICR based cheque processing, Interconnectivity among bank Branches, Electronic Funds Transfer, and the implementation of ATMs, Commercial banks in India have embraced technology through Bank Mechanisation, allowing customers to bank at any time. The Reserve Bank of India has taken significant steps to strengthen settlement and payment mechanisms in the banks. India's government, banks, and fintech firms have invented and transformed how the country spends its money. However, digitalization also poses new difficulties to the financial system's security, integrity, and consumer protection. This study provides insights into digital technology and the ways banks adopt it in India.*

**Keywords:** Digitalization, information technology, Indian banking sector, customer services

## Introduction:

In all industries, "digital" is the new buzzword. Banking, like other businesses, is undergoing a global shift toward digitization. To preserve a competitive advantage and give the best effective service to their customers, banks of all types and countries are keen to invest in digital innovations. Because of digitalization, India's banking sector has seen significant growth in recent years, driving a higher rate of capital formation (Jagtap, 2018). Because of the financial help that delivers to other industries and promotes capital formation, the banking sector is known as the sector for developing all other sectors. Despite being one of the world's fastest developing nations, India is falling behind in adopting digitalization in the banking sector.

The term "digitalization" refers to and includes the complete spectrum of advancements in the banking sector (Shetty et al., 2019). Digitization is when information is converted into a digital format through technology. There are a variety of web- and mobile-based payment applications that are mainly concentrated on the user experience and frequently strive to incorporate monetary transactions within the commercial value chain effectively. However, these service providers do not seek banking licences and typically do not provide banking facilities beyond payments (Seshadripuram, 2020). To implement internet banking, the Indian government drafted the IT Act, 2000, which took effect on October 17, 2000. The conventional banking system in India appears to be overtaken by technological developments. The following are some of the digitization initiatives taken by Indian banks (Sonia dara, 2019)

- Banks are active on social media sites such as Facebook and Twitter.
- Implementation of an online tax accounting system.

- The Reserve Bank of India has introduced a cardless withdrawal facility.
- The Business Transformation Programme was introduced by the Bank of Baroda.

The technique of digitalization (Jagtap, 2018):

- Real-Time Gross Settlement
- Prepaid Instruments
- Electronic Clearing Services
- Mobile Banking
- National Electronic Fund Transfer Fund
- Credit Debit Cards

#### **Need for digitalization in the Indian banking sector:**

In the late 1980s, the Indian banking sector recognized the need for computerization to improve customer service, bookkeeping, and record-keeping. The Reserve Bank of India then constituted a committee to explore computerization in banks in 1988, which Dr C. Rangarajan chaired. With the Indian economy reforming from 1991 to 92, the computerization process accelerated. The increasing entry of private and international banks into the banking sector was one of the key drivers of this development. Several commercial banks began to shift toward digital service delivery to stay competitive and relevant in the race. The advent of Cheque processing based on MICR, the electronic transfer of funds, the interconnection of bank branches, and the adoption of ATMs have resulted in the convenience of banking time for commercial banks in India.

Due to a lack of cash during the demonetization period, people were driven to use mobile banking or digital payment, which looked to be a better alternative for them. The Indian government is now encouraging digital payments extensively. United Payments Interface and Bharat Interface for Money were launched by the National Payments Corporation of India, which are crucial steps in the payment mechanism. UPI is a mobile platform that allows customers to send money across accounts at different banks using a virtual address instead of their bank account numbers.

#### **Review of literature:**

Sharma & Bhalla, (2018) This article is collected from secondary sources gathered from newspapers, periodicals, and the Internet to learn more about Indian people's comfort levels with online transactions. The result indicated that the Indian citizen coordinated with government decisions toward digitalization. However Indian government give their best to enhance cashless transactions in the Indian economy.

Shetty et al. (2019) Study the Digitalization of banks development in India, concentrating on the difficulties and prospects. The study revealed that digitalization helped improve customer services, cost and time of banks and customers, helpful in enhancing competitive advantages and earning extra income from promotional activities. Still, there is a threat from cyber-attacks, selection of ATM locations, selection of right technology.

Shettar, (2019) According to the study, digital banking has significantly lowered bank operating costs. Banks have been able to charge reduced service fees and offer increased interest rates on deposits as a result of this. Bank earnings have increased as operational costs have decreased. Digital banking, according to the report, has huge potential to reshape the picture of financial inclusion. Digital banking's ease of use can hasten the unbanked economy's absorption into the mainstream.

Y. Gupta & Khanwalker, (2019) Based on information and statistics published by numerous secondary sources, this study focused on the steps and policy measures done by the Indian government to improve the current state and prospects of financial inclusion in digital India. The research paper indicated that providing adequate financial services in rural regions is essential for economic growth since it will assist rural people in funding the expansion of individual livelihoods.

Gupta et al. (2020) Study the impact of information technology on Indian banks. The selected banks for the study were PNB, SBI, and UBI. The information used in this study was gathered from secondary sources. The researcher concluded that ICT has a significant contribution to Indian banks. The researcher witnessed the proper strength and function of digitalization through cashless transactions, which are only feasible today due to digitization in banking.

Singh & Srivastava, (2020) This study's findings are discussed in digital online banking, add to new research on the use of digital banking services, and give information to financial institutions and banks on mobile banking use in India. Additionally, the adoption criteria substantially affected customers' using mobile payment systems. Perceived security, ease of use, mobile self-efficacy, customer assistance and social influence were among the adoption factors.

Shifa Fathima (2020) studied digitalization development in Indian banks and described why banks adopt digitalization. Researchers concluded that the transition to digitalization and its consistency should help the company save money by reducing labour and automating the system. In the digital age, the main task is to ensure that all clients are secured from cybercrime and that the best technical mechanism is used.

Kanungo & Gupta, (2021) The impact of digitalization-driven financial inclusion on public banks and the socially disadvantaged segment of Indian society was researched to see that overall socio-economic well-being had been achieved. Results indicated that banks have sought to go in the correct direction with good financial coverage. Additionally, digitalization has hardly promoted financial inclusion.

Kaur et. al., (2021) Study of the impact of digitalization on customers' satisfaction. The researcher used the SERVQUAL model to conduct the study. The result revealed that Northern Indian customers of digital banking were delighted with the services given by the digitalization of banks. Additionally, tangibility and responsiveness have less impact in comparison to responsiveness.

### **Problem Statement**

Almost all firms' working cultures and lifestyles have been profoundly changed by technology. Digitalization has transformed the world into a global village. This encourages researching the role of recent technological advances in the Indian banks. So, the problem statement is "To identify the role of digitalization in the Indian banking sector".

### **Objective of the Study:**

To identify the role of digitalization in the Indian banking sector.

### **Role of digitalization in the Indian banking sector:**

- Service quality has improved.
- Banks and customers save costs and time by using ATMs and other cashless transactions.
- Customer experiences have improved.
- With more digital data at their disposal, banks may use digital analytics to make data-driven dynamic decisions.
- Technology is non-discriminatory in its application. At banks, everyone will be treated equally.
- Because of the improved banking services, the number of consumers will increase for banks.
- Human mistake is reduced as a result of digitalization.
- The need to handle significant amounts of money will be eliminated.
- Make things easier to store and retrieve data.
- Digitalization can potentially change the paradigm of financial inclusion and drastically shift the paradigm of financial inclusion. Digital banking's ease of use can advance the unbanked economy's absorption into the mainstream.
- However, the socio-economic situation in India emphasises the need for digitalization. With such a high percentage of crime and corruption, digitalization is a secure way to conduct business.
- Reduce the workload and save the time of banks employees.

### **Conclusion:**

The banking sector in India is undergoing significant changes due to this digitalization. It is impossible to resist the expansion and services of digital banking in the digital era. Everyone uses a sophisticated mobile device known as a Smartphone to access digital banking services for everyone at any time and from anywhere. As a result, digitization is now inevitable in the banking sector. People choose to use this digital banking system over traditional banking, which requires customers to visit a bank branch since they desire accessible financial services. On the other hand,

technology has created cyber risks that should be adequately addressed by such a robust security system. Therefore, digital banking would be a blessing to the consumers of the banking sector in the digital era.

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