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Digital banking in India-March towards a cashless economy

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Abstract
Digital banking involves the digitalization of all traditional banking products, processes and activities to serve customers through online channels. Technology has, in fact, given new dimensions to the banks' service delivery mechanism, and the banks are enthusiastically absorbing the latest technological innovations for devising new products and services. It is in this context, that the conventional brick-mortar banks are giving way to virtual banks from customers' perspective. With the time, the concept of digital banking has got attention in the Indian context. Most of the banks have already implemented the e-banking facilities, as these facilities are beneficial to both i.e. banks as well as consumers.
The banks are facing many challenges and many opportunities are available with the banks. Many financial innovations like ATMs, credit cards, RTGS, debit cards, mobile banking etc. have completely changed the face of Indian banking. Thus, there is a paradigm shift from the seller's market to buyer's market in the industry and finally it affected at the bankers level to change their approach from "conventional banking to convenience banking" and "mass banking to class banking". The shift has also increased the degree of accessibility of a common man to bank for his variety of needs and requirements. Digital Banking will be the most preferred form of banking in the coming years for all customers in all banks.

Keywords: Anti-virus software, digital banking, information and communication technology, mobile wallets, UPI

Introduction

With the continuous advancement in information and communication technology (ICT), the monetary and financial sector is also changing their faces. One of the recent developments in the monetary and financial sector out of technological development is the introduction of digital banking. The use of physical cash is on the decline as people have adopted plastic money and other electronic means of transferring money. New and new ways of payment and transfer methods of money are developing. Payments through electronic wallets, mobile wallets, and plastic cards are picking up. This is not just a European trend, but in India too, the trend of digital banking or net banking is proliferating. Further, the demonetization drive has also fuelled the growth of digital banking in the country and taker the country towards a cashless economy.

In developed countries like US and UK, only a small fraction of the currency is in physical circulation. Most people in the west prefer e-money as an alternative to physical currency. Though physical currency has numerous advantages in certain situations, its circulation has decreased. Therefore, for a banking student, there is an imperative now about information technology-based services offered by banks as this is full of risks. A banking graduate must be aware of such risks and techniques to be followed to mitigate these risks to offer safe and seamless banking services.

Technology plays a vital role by ushering in a fundamental shift in banks' functioning compared to the manual system of operations earlier. It helps banks bring improvements not only in their internal functioning but also enables them to provide better customer service. Technology has broken all boundaries in bringing seamless banking and encouraged speedier cross-border banking business. RBI attributes this growth in digital banking to 'higher levels of sustainable development and financial inclusion.' Deep telecom penetration, the availability of the internet, and the ready adaptation of technology have accelerated credit access, and efficient payment systems for now and the future of digital banking are all responsible for this flourishing growth.

With the Indian Government's vision of a cashless economy and rapid development in improving internet penetration throughout the nation, the country recorded over 25.5 billion real-time payment transactions in 2020 (the highest in the world), exceeding China by 60 percent. Consequently, most Indian banks in the country offer Digital Banking services today, which have become an integral part of banking. True Digital Banking meaning is a transformation!

Digital Banking

In simplified form, banking done through the digital platform, doing away with all the paperwork like cheques, pay-in slips, demand drafts, and so on, is coined as digital banking. Digital means the availability of all banking activities online.

Digital banking gives you the luxury of freely accessing and performing all traditional banking activities 24x7 without having to personally go to a bank branch to get your work done. Digital Banking can be done through a laptop, tablet, or mobile phone. Following are some of the key benefits of digital banking that separate it from traditional banking

1. **Cash Withdrawal:** With ATMs in most localities, customers need not visit a bank branch. Digital Banking allows you to withdraw cash from the ATM at any time of the day or night.

2. **Fund Transfers:** The ease of transferring funds is one of the most significant benefits offered by Digital Banking. There is no need to go through the hassle of issuing cheques or Demand Drafts by bank. officials. All you need to do is use Digital Banking to transfer funds to anyone, anytime. Several options are available,

like IMPS, RTGS, NEFT, etc. It's even easier to do it on the Mobile Banking App.

3. **Getting Statements:** Today, bank customers can use Digital Banking to download bank statements for any period at any time. It does not require visiting a bank branch and getting a printout. It is there on your device to access whenever you want.

4. **Investments:** Digital banking has made investing hassle-free and just with the click of a mouse or mobile touch. It just takes a few seconds to open a Fixed Deposit with the bank or renew the recurring deposit (RD). Besides this, modern consumers can use Digital Banking to make investments. in other instruments as well, such as investing in mutual funds through SIP, buying insurance plans or Mediclaim policies, transferring school fees of kids, and applying for bank loans; all is possible through your mobile phone or personal computers.

5. **Keeping Track of Transactions:** Digital Banking has made it much easier for customers to track transactions. Want to know if your salary has been credited to your account? Just whip out your smartphone and check you'll know in a matter of seconds. Plus, banks send SMSs if money has been debited from your account. So, in the unlikely event of a fraudulent transaction, you'll come to know of it immediately.

6. **Mobile Banking:** The first phase of the Digital Banking revolution was through the internet. The second phase of Digital Banking involves mobile phone platforms. After smartphones came into the market, Digital Banking took off significantly. Smartphones now allow customers to carry out bank transactions on the go. They can transfer funds, invest in Fixed Deposits, and pay the bills even while commuting on the go. Most banks like HDFC Bank have apps for customers, such as Mobile Banking App and Pay Zapp, among many others. HDFC Bank also has a mobile phone application called HDFC Bank Mobile Banking LITE that can be used without an Internet connection. This app allows users to check balances, get statements, place requests for check books, view fixed deposit summaries, etc.

7. **Paying the Bills:** Digital Banking has made it much easier to pay your bills. All you need to pay is via logging in, whether it's electricity, gas, phone, or other bills. And there's the auto-debit facility that allows your bills to be paid automatically as and when they arrive. HDFC Bank allows you even to recharge your pre-paid mobile phone number. Digital Banking has indeed transformed the everyday Life of an individual!

8. **Stop Cheques:** Sometimes, you may need to stop cheques for some reason like you may have got the amount wrong, or the beneficiary was not the one you wanted. In that case, Digital Banking makes it very easy to stop cheques. All you need to do is log in, and with a simple click, you can update the cheque processing.

Categories of Digital Banks

Different types of digital banking systems in India have not only touched the urban elite but are also permeating the rural sector. Different types of digital payments categorize digital banking. These modes of digital payment. use electronic means to replace cash and cheque. The main types of digital banks operational in India are as follows

1. **Neo bank:** Neo bank is a digital bank operating online, without any physical presence, which provides its customers remote access to its services via a mobile app. Many Neo banks don't hold a bank. license and partner with an existing bank for bank-licensed operations (which means their customers need to create an account at the partner bank). Often, the range of services a neo-bank offers is narrower compared to licensed banks.

2. **Challenger bank:** This term originated in the UK and refers to a recently launched bank that "challenges" traditional banking institutions. Being more user-friendly and cost-effective for an end-user, challenger banks focus on the audience segments that are underserved by the big financial institutions.

3. **New bank:** These are fully licensed neo-banks that provide a full range of banking services, and their only difference from the brick-and-mortar banks is the mode of operation which is completely online. Revolut, Monzo, N26, and Starling Bank are examples of new banks.

4. **Nonbank:** As the name implies, these are nonbanking institutions that provide financial services for example, streamlined loans or mortgages, but they don't simultaneously accept deposits or offer checking and savings accounts. Some of the nonbanks, like Monese, operate on EMI licenses.

Types of Digital Banking Payments

1. **Aadhaar Enabled Payment System (AEPS):** AEPS lets the client initiate banking instructions after verifying the Aadhaar number successfully.

2. **Banking Cards:** Cards are used to withdraw cash and enable other forms of digital payment. Cords con be used for online transactions and on the point of Sale (POS) machines. Banks can also issue prepaid cards; they are not linked to the bank account but function through the money loaded onto them.

3. **Internet and Mobile Banking:** Commonly known as e-banking, internet banking refers to obtaining certain banking services over the internet, such as fund transfers and opening and closing accounts. Internet banking is a subset of digital bonking because internet banking is only limited to core functions. Similarly, mobile banking is availing banking services through mobile-based applications.

4. **Mobile Wallets:** Mobile wallets have eliminated the need to remember four-digit card pins, enter CVV details, or carry loose cosh. Mobile wallets store bank account and card credentials to easily add funds to the wallet and make payments to other merchants with

similar applications. Popular mobile wallets are Paytm, Free charge, Mobi Kwik, etc. Mobile wallets, however, generally limit how much can be deposited in the wallet. A small fee may also be charged on depositing the funds from the mobile wallet back into the bank account.

5. **PoS Terminals:** PoS machines are portable devices that read a card to authorize and complete the payment. Supermarkets and gas stations opt for this method of payment. However, with digital banking thriving, PoS terminals have evolved into more than physical PoS devices. Virtual and Mobile PoS terminals have surfaced, using the mobile phone's NFC feature and web-based applications to initiate payment.

6. **Unified Payments Interface (UPI):** UPI is the most trending form of digital banking. UPI uses a virtual payment address (VPA), so the user can transfer funds without entering bank account details or an IFSC code, Another striking feature of UPI is that the applications let you consolidate all your bank accounts in one place. Funds can be transferred and received around the clock with no time restrictions. UPI-based apps in India are BHIM, PhonePe, and Google Pay. BHIM application, in addition to transferring funds to other virtual addresses and bank accounts, also lets the user transfer funds to another Aadhaar number. More importantly, UPI-based payments are free of cost.

7. **Unstructured Supplementary Service Data (USSD)** By dialling the number *99#, mobile transactions can be carried out without an application and internet connection. The number holds nationwide applicability and promotes greater financial inclusion on the ground level. The service lets the caller surf through on interactive voice menu and chooses the desired option on the mobile screen. The only catch is that the caller's mobile number should be linked to the particular bank account.

8. **National Electronic Fund Transfer (NEFT):** This system has enabled Individuals, firms, and corporates to transfer funds from one bank to another in the country participating in the system. The salient features of NEFT are
- NEFT is a convenient mode of money transfer between banks in India.
- Internet is used to transfer funds.
- It is an electronic transfer of money from one bank or bank branch to another.
- NEFT functions on a 'batch settlement basis.
- The batches are settled in hourly time slots.

9. **Real Time Gross Settlement (RTGS):** RTGS, real-time gross settlement, is an electronic fund transfer system that enables money to move from one bank to another on a real-time and gross basis. 'Real-time means that the beneficiary bank receives the instructions for fund transfer immediately. and 'gross' means that it is not bunched with any other transaction and settlements of funds transfer instructions happen individually. Since the funds' settlement takes place in the Reserve Bank of India (RBI) books, it makes transaction payments final and irreversible. The salient features of RTGS are
- It is a fast and convenient mode of money transfer between banks in India.
- Internet is used to transfer funds.
- As soon as the transaction is processed, the funds are transferred to the beneficiary.
- RTGS is generally meant for large-sized transactions. The minimum amount that can be remitted through RTGS Is 2 lakh.
- RTGS does not have on upper ceiling for transactions.

10. **Electronic Clearing System (ECS):** ECS electronic clearing system is an electric mode of transferring funds from one account to many bank accounts. The ECS facility is used by organizations that make repetitive payments to many persons. Paying monthly salary, dividend, and pension is done through ECS. The ECS facility can also pay utility bills and other charges such as electricity, water, mobile, or EM is of banks and other financial institutions. RBI introduced the ECS facility. ECS facility can be used for both credit and debit purposes. There are two forms of ECS transfers - ECS Credit and ECS Debit ECS Credit is used by an organization interested in transferring funds to distribute salary, interest, pension, annuity, or dividend. While the ECS debit facility is used by an organization subject to receiving periodic payments from many people. This facility is very useful for payment of utility bills such as mobile/electricity/water bills or collections of funds such as cess, loans, and mutual investments.

11. **Immediate payment Services (IMPS):** Immediate Payment Service is an interbank electronic instant mobile money transfer service through mobile phones. The beneficiary account is credited immediately when a Fund Transfer request is made. This service is available 24x7 throughout the year, including Sundays and any bank holiday. IMPS was introduced by NPCI (National Payments Corporation of India) in 2010. The Salient features of IMPS are:
- Mobile-based payment service
- Instant Funds Transfer.
- 24 x 7 x 365 availability
- Credit and debit confirmations to sender and receiver immediately
- Simple & Easy to use
- Fast, inexpensive, safe & secure, accessible

Disadvantages of Digital Banking

Undoubtedly, digital banking is full of advantages and the need of the day. But still, the question, "Is digital banking actually safe?" needs a crystal-clear answer. Contrary to the popular opinion that digital banking poses security concerns, most readers will be surprised to know that digital banking is safer than traditional branch banking. While digital banking forums are prone to susceptibilities and hacks such as phishing, pharming, identity theft, and keylogging, banking institutions invest a lot in their security systems. Security is at the forefront when considering a service such as digital banking. If security were to be compromised, banks would lose a crucial selling factor, and more so than risking user data and resources, banking

institutions cannot afford negative publicity. This is why banks have been spending heavily on making their system fully proof and hack-free. But banking customers also have to take certain precautions. Some of these ore as follows:

- Use Anti-virus software to protect your systems from virus attacks, as these software offer an extra layer of security to your systems.
- Never use any public networks and devices to access digital banking. Remember to clear the cache and browsing data if you use a public device. It is good practice not to allow the browser to save your username and password for bank details.
- Remember that banks never ask for your confidential information, such as your date of birth, PAN card, or Aadhar card details, so refrain from sharing it with anyone who asks.
- Make a habit of following prompts to change your passwords regularly and keep your passwords confidential.
- The URL address MUST begin with 'https, or a padlock must appear next to the website address. The padlock is a security certificate. The address bar turns green when the site is secured with an SSL certification, which is an additional validation for the website's security. Therefore, use the bank's URL and refrain from clicking on other links. Banks generally use minimum SSL/128-bit encryption,
- Last but not least, disconnect from the internet when the system is left.

Summing-up

Incumbent commercial banks have inefficient business models as evidenced by high cost to income, and high cost to serve numbers. Banks and fintechs offering digital banking services (so-called, neo-banks) rely primarily on digital channels that organically have high efficiency metrics relative to incumbent commercial banks. This structural feature makes them a potentially effective channel through which policymakers can achieve social goals like empowering the hitherto under-banked small businesses, and enhancing trust among retail consumers. Neo-banking business models emerged globally in the aftermath of the global financial crisis as a response to loss of faith in the incumbent banks. It came of age in 2015 in markets like the United Kingdom and has since matured. Three models of these “challenger banks” (so-called because of their emergence in the aftermath of global financial crisis) appear to have emerged globally.

Though there are many benefits of digital banking services, there are many issues and key challenges. India witnessed a dramatic rise in digital adoption during COVID 19 pandemic giving rise to a new dimension to the future of digital banking in India. The Digital banking challenges denote factors that prevent digital banking from stabilizing and becoming a universal banking method for everybody. Against the structuring of digital banking sites and mobile apps to be secure and setting up of the updated security protocols regularly in place, no system is completely fool proof and accounts can be hacked, resulting in identity theft through stolen login credentials. Digital transformation to be successful, core specialized competencies in arenas like cyber security, entity architecture, cloud, digital experience design and analytics, are very much necessary.

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