
EFFECT OF DIGITALIZATION IN BANKING SECTOR

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ABSTRACT

Data conversion to a digital format is referred to as digitalization. Digitalization entails a commitment to advancing technology. But people frequently use these two terms interchangeably. The pressures of poor growth, sluggish profitability, and strict regulation may be overcome by the healthy portion of the sector with the aid of digital disruption, allowing it to firmly reestablish its reputation with society and the trust of its customers. Since customers are already exposed to the digital transformation in almost every aspect of their lives, if banks can provide a better user experience, they will once more be closer to meeting what customers demand and need to fulfill their aspirations and take advantage of the opportunity of this new age. This paper's primary goal is to demonstrate the banking industry's digitalization.

Key words: *Technology, Economy and Sector.*

INTRODUCTION

Banks play a significant role in our daily lives today while not being a part of them. Many people find that their day won't be complete without at least one financial transaction. Therefore, banks continually work to embrace cutting-edge technology to improve the client experience. Because every business is becoming digital, including the banking sector, digitalization is not an option for the banking sector; rather, it is a given. More quickly than online banking, mobile

banking is growing. It is crucial for banks to go digital because automation will be made possible by digitalization.

Banks must plan for and enhance its infrastructure to accommodate the growing client base as well as the volume and number of banking transactions, which will drive up the cost of the products or lower bank profits. Digitalization and automation will therefore offer a better answer to all of these issues. In banks, many routine daily chores are still carried out by human labour.

Some banks are now moving towards automated cash collection/payment by recyclers, online account opening with Aadhar verification, processing for check sorting and clearing, and more. While the costs of implementing these new digital channels may be high and strain the bank's finances, in the long run they will increase the bank's revenues many fold and help the bank retain existing customers. , also helps attract more new customers.

STATEMENT OF THE PROBLEM

Digitization reduces the effort of employees, resulting in unemployment. Job losses will be compensated by the creation of new jobs such as cyber security, innovation research teams. As cyber crime and other types of theft increase, banks become more vulnerable to cyber attacks. Forget cybercrime awareness, there is a lack of digital awareness in this country. A large portion of the Indian population is digitally illiterate and therefore unfamiliar with the digitization of banking. The technology itself becomes invisible to the customer and only appears as an engaging customer experience at all levels of interaction. Reduced costs for banks and customers through the use of ATMs, cashless payment transactions, etc. This study

understands how digitalization is impacting the banking sector. Technology does not discriminate in the banking sector. Automation reduces human error and eliminates repetitive tasks. Disparities between rural and urban areas will be eliminated.

OBJECTIVES OF THE STUDY

- To analysis of the impact of digitalization on the banking sector.

METHODOLOGY

The study is done by secondary source like Journals, newspapers, magazine and e-articles, websites, books etc.

LIMITATIONS OF THE STUDY

- The study is limited only in banking sector.

DIGITALIZATION IN BANKING SECTOR

The banking sector is the first sector to try to adopt technology since its introduction. The banking sector, which primarily serves people, gets tired of repeated steps and the quality of service declines. All public sector banks contacted the Reserve Bank of India in 1992-1993 to see how they could solve the quality of service issue for their private customers. These were the times when customers had to go to the branch and were able to withdraw their money between 10am and

2pm on business days. There was no ATM, no internet banking. It was a check service only, zero digitization and absolutely no automation.

Customers can only contact a branch (cannot go to another branch). Forget loans. Getting a loan from a public sector bank was like manna from God. Auto loans, motorcycle loans, and housing loans are not available. Only HDFC Limited offered mortgages to customers everywhere. Enter the ICICI bank that contacted RBI to obtain a retail banking license. RBI granted ICICI Bank a banking license and he wondered what ICICI Bank would do in a retail business where public sector banks (with over 100 years of tradition) struggled. ICICI Bank implemented technology for all stakeholders. Through technology, we have achieved great customer service as well as volume. You can see the progress of ICICI Bank using technology to become India's third largest bank.

Automation and digitization will liberate your customers and provide them with a self-service platform that is the best way to serve your customers. Besides freeing customers, self-service customer transactions are of little value to banks. For example, if he withdraws 3000 INR from the bank, this transaction will cost about 200 INR/- at the bank. If you

withdraw INR 3000/- from an ATM, this transaction will cost him INR 50/- in the bank. When you use internet banking to transfer money to another bank account, your bank does not cover the fees. Technology consistently serves all customers equally. Banks cut costs by deploying technology. This therefore contributes to the bank's revenue (more profit) and allows the bank to benefit its customers in the form of lower prices.

Digital technology is seen as both a challenge and an enabler. Branch consolidation is one way to reduce costs, digitization and digital transformation is another. However, many banks have not yet combined digitization with cost savings. However, there is a clear connection, as you can see below. For example, digitizing back office processes and back office automation will lead to cost savings at levels such as core banking replacement, document management systems, and business process management. Additionally, digitizing the back office eliminates the inevitable costs of manual and paper-based processes, while running in the context of a one-size-fits-all customer experience reduces customer service costs and customer churn. generate efficiency.

FEW TRENDS AND OPPORTUNITIES:**❖ Changing consumer behavior in favor of digitalization**

As the market is exposed to disruptive digital services, we are focused on changing customer preferences from traditional banking to digital. India's demographic dividend is projected to rise by 2020, when the median age of the Indian will be 29 years old, and by 2025, 900 million inhabitants are projected to be 15-60 years old. , suitable for the transition to digital behavior. People are looking for more convenience at the expense of higher prices, so they are starting to actively use technology to conduct banking and other services.

❖ Unpenetrated areas and government initiatives

About 50% of the unbanked population has been targeted, moving towards the goal of financial inclusion. About 160 million accounts are transferred under PMJDY (Pradhan Mantri Jan Dhan Yojna) and 500 billion rupees are directly transferred under DBT (Direct Benefit Transfer). With so many non-penetration and government initiatives to promote digitization, banks have tremendous opportunities and benefits from adopting digital infrastructure.

❖ Leveraging increased smart phone usage and mobile penetration

A mobile penetration rate of around 90% could drive financial inclusion. Mobile phones are likely to drive digital growth in India due to the expected level of market penetration and Indian youth preferring to use smartphones rather than waiting in long lines for banking services. The current and projected prevalence of smartphones in the country provides a disruptive and cost-effective medium for expanding the reach of banking and payment services.

The IT revolution has had a major impact on the Indian banking system. The use of computers has introduced online banking in India. The use of computers in the Indian banking sector increased exponentially after economic liberalization in 1991 as the country's banking sector became more exposed to global markets. Indian banks have found it difficult to compete with international banks when it comes to customer service without the use of information technology. The RBI set up a number of committees to define and coordinate banking technology. These have included:

- In 1984, the Banking Sector Mechanization Committee (1984) was established, chaired by Dr. C.

Rangarajan, Deputy Governor of the Reserve Bank of India. The Commission's main recommendation was to introduce his MICR technology to all banks in the Indian metropolitan areas. This allowed the use of standardized check forms and coders.

- In 1988, the RBI established the Commission for Computerization in Banks (1988). C. Rangarajan. He stressed the need to computerize the settlement process at RBI's clearinghouses in Bhubaneshwar, Guwahati, Jaipur, Patna and Thiruvananthapuram. He further said that nationwide clearance for inter-city checks in Kolkata, Mumbai, Delhi and Chennai is required and MICR should be put into operation. We also focused on computerizing stores and improving connections between stores through computers. It also proposed modalities for implementing online banking. The Commission submitted its report in 1989, and from 1993 onwards it began to be digitized, including a comparison between the IBA and the Bank Employees' Association.
- In 1994, the Commission on Technical Issues of Payment Systems in Banking, Check Clearing and

Securities Processing (1994) was established under the chairmanship of W. S. Saraf. Emphasized the Electronic Funds Transfer (EFT) system with the BANKNET communication network as its carrier. Also, MICR clearing must be set up for all branches of all banks with more than 100 branches.

- In 1995, the Commission Proposing Law on Electronic Funds Transfers and Other Electronic Payments (1995) again emphasized EFT systems.
- In July 2016, Bank of India Deputy Governor Rama Gandhi “urged banks to work on developing digital currency applications and distributed ledgers.”

Since their emergence at the end of the 20th century, digital technology has rapidly taken hold and brought about a transformative process that has profoundly changed society and the economy. The number of connections, interactions, and transfers of information using digital technology will grow exponentially, blurring physical barriers and reducing the cost of accessing information. Interconnectivity, Internet of Things, and automation are the major exponential technologies businesses must adapt to today.

Let me say a word on each of the three:-

- ✓ **Interconnectivity/Mobile technology:** Over the past decade, the use of internet-connected mobile devices has increased significantly due to the introduction of mobile broadband networks and increasing device affordability. Their low price and ease of use have narrowed the digital divide and extended the benefits of digitization to virtually the entire global population.
- ✓ **Internet of things/Big Data:** Big data analytics technology is designed to analyze large amounts of information at high speed and extract value from it. The types of data that can be processed today include not only structured information, but also a vast and exponentially growing amount of unstructured data thanks to hyper-connectivity between humans and machines (the Internet of Things). Included.
- ✓ **Automation/Artificial intelligence:** It will be the next technological frontier with a significant impact on the labor market, and which will be an essential part of this 4.0 industry. This discipline is devoted to designing IT systems based on highly flexible algorithms with characteristics normally associated

with human intelligence and behavior, such as understanding language, learning, reaching own conclusions, etc. In the medium term we shall most probably see the automation of certain activities, which will require productive processes to be redefined so that humans continue to contribute value where they perform best.

CONCLUSION

With the increasing use of smart phones, the digitization of the banking sector is inevitable in order to keep up with rising global expectations. In fact, it reduced human error and increased comfort. However, with cyber threats on the rise, banks must be vigilant and prepare for cyber attacks. At least one thing is clear. A revolution in the financial sector is unfolding before our very eyes, forcing us to restructure our banking operations and even question our viability as a financial institution. The decisions we make now should be approached with great responsibility, keeping in mind three key guiding principles. First, the customer must be at the center of all success-oriented initiatives. Second, particular attention should be paid to the emergence of new challenges as future technological developments and the competitive

landscape remain uncertain. Finally, maximizing the digitization of finance while maintaining financial stability and ensuring adequate consumer protection

requires collaboration and communication between all stakeholders (government and private providers) is essential.

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