A Study of Digital Payments: Trends, Challenges and Implementation in Indian Banking System

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ABSTRACT
The challenges and emergence of a global economy and a Digital First World has created financial disruptions in e-commerce and e-business around the globe. The collaborations of banks with Fintech companies have led to digitalization being an important component of their business and marketing strategy. The application of e-banking has been demonstrated as an effective cost reduction, risk management and provides quick services to the customers. Nowadays, e-banking services have already ensured opportunities to reduce expenditures on physical structures. However, in some previous studies it has been showed that e-banking has helped banks and financial institutions to reduce costs, increase revenue, and increase customer experience. With the growth of digital banking in India, it is significant to analyze the actual situation of customer satisfaction in the banking sector. This article evaluates the various new digital banking technologies in the banking sector of India which have gained momentum after various banking reforms like the digital financial inclusion, demonetization and GST implementation. It also identifies the relationship between the increasing trends in the usage of electronic banking and a customer paradigm shift from traditional cash and paper-based cheque payment systems and evaluates various challenges and opportunities in the implementation of digitalization. This research was carried out using multiple methodologies.

KEYWORDS
Digital Banking, E-Banking, Mobile Banking, Payment Systems, Risk Management

1. INTRODUCTION
Indian Banking System is passing through the phase of digital disruptions and this digitalization is not a new buzzword in the Indian economy as it was happening for a long time. The traditional ways of banking starting moving to e-banking with introduction of card payment systems way back in 1980s when the Central Bank of India being a first with public sector bank launch credit card known as Central Card. HSBC was the first bank in 1987 to launch the first ATM and in 1996 ICICI bank started internet banking for the customer’s transactions. The digital revolution started with the introduction of mobile banking in 2002 by ICICI Bank by the way of SMS banking. Internet and

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mobile banking have played an important role in the shift of customers to digital finance with benefits of speed, convenience, transparency, reach and removing geographical barriers. The major issue and challenges was the growth and the pace of adoption of these Electronic / digital banking products by customers was slow for two important reasons, one financial literacy & low awareness and second people are more comfortable with cash transaction because of lack of trust due to perceived risk.

Digital disruption is a change that occurs when new digital technologies and business models affect the value proposition of existing goods and services. The rapid increase in the use of mobile devices for personal use and work, a paradigm shift sometimes referred to as consumerization of IT, has increased potential for digital disruption across many industries. Reserve Bank of India, NPCI, Government of India, Ministry of Finance took various initiatives to shift the focus of the banking customers from traditional ways of banking to digital banking products. RBI and NPCI started these digital disruptions in Indian banking industry with introduction of Payment and Settlement Act, 2007 for supervision and regulation of various payments and monetary settlement of business transactions. Cheque truncation system (CTS) was introduced by RBI in 2009 to reduce the physical movement of the cheques to the image-based cheque clearing system where electronic image is transferred to drawee bank. The major benefits of CTS are faster speeds, reduced costs of encoding, physical movement and reduction in times for collection. The National Payment Corporation of India was founded in 2008 and registered under Section 8 of the companies act 2013. NPCI is not for profit and umbrella organization responsible for smooth and efficient operations of payment and settlement systems in India. Real-time gross settlement (RTGS) in 2004 as high value gross settlement electronic funds transfer (for transactions above Rs. Two lacs) and National Electronic Funds Transfer (NEFT) in 2005 as deferred net Settlement (DNS) for any value is settled during the day in batch processing system. NPCI introduced the National Automated Clearing House (NACH) in 2016 to replace and consolidate multiple electronic clearing services into one centralized clearing system. The major benefits of NACH was reduction of activation time and cost, digitalized mandate, simple procedures and standardized procedures in all the clearing houses in India.

Government of India, RBI and NABARD has played an important role in achieving financial inclusion in India. Success story of PMJDY was a Revolutionary financial inclusion scheme launched in 2014 have achieved 32.99 crore beneficiary, 86480 crore deposits and 24.74 Rupay debit cards to beneficiaries as on 17th October 2018. The short supply of high value denominated currency during demonetization period lead to an increase in the level of payment digitization. Awareness on usage of debit and credit cards at ATM for cash withdrawal as well as for shopping at point of sales including card and e-wallet increased. However, even during the re-monetization when new currency was back in the economy, the volume of digital payments came down but still the demonization has paved the way for the customer’s habit of usage of electronic payment systems. Promotion of cash less society, reduction of usage of cheques, and change in the habits of customer’s in faster adoption of electronic and digital payment instruments have opened new windows of opportunities for Digitalization and Fintech companies. Figure 1 shows the Technology Developments in Indian Banking Sector.

2. LITERATURE REVIEW

Poddar, Erande, Chitkara, Bansal and Kejriwal (2016) in their study assessed that companies on digital platform found that 42% were using bank’s digital offerings and are satisfied, 7% companies said that they were using digital products but not satisfied, 35% said that they were aware but not using and 7% companies were not aware. It is important to note that once the digital is adopted by companies and when they start using in day to day operations, their satisfaction level increases.

CII - Deloitte Report (2016), banking on the future, Vision 2020 focuses on the five critical factors for the successful model of Bank Fintech Partnerships. These five factors are scalability, vision, product life cycle, trust and buy vs build. Banks partner with Fintech Companies as well as create products of similar nature in-house. Bank Fintech Collaboration takes the form of Innovation
Viewing Cybercommunities through the Lens of Modernity: The Case of Second Life


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