

Future Need Banking Not Banks: An Overview

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Abstract

Modern India needs banking more than banks. According to report by India times in 2021 around 61% people use internet in India, which is about 560 million users and Today (according to RBI statistics) around **35 % of the population** is using E-Banking for daily transactions. The gap between the internet users and e-banking users clearly paves a way for the wide scope of digital banking in India. Post COVID this scope has fattened up even more. Banks need to pick up the pace to become banks of the smart India. Fintech companies and other non-banking financial companies are like a shark in the ocean but they most obviously lack the specialty of banks i.e. they cannot issue cheques and demand drafts like banks. But nevertheless these sharks are a threat in the ocean and provide bottleneck competition to banks, for which banks need to level up and provide banking above banks.

Introduction

BANKS: A bank is a financial institution that accepts deposits from the public for the purpose of lending thereby earning profit in the process through interest margins.

BANKING: Banking basically means accepting deposits and providing loans. But now it does not only mean these lending and borrowing activities. It has spread its wings to third party products as well and is working to provide even better services. It is no longer confined to the traditional ways but has taken a leap forward. In the sense that we need not visit bank premises for the sake of many transactions which we now-a-days perform through various other modes like mobile banking apps and other fintech apps. In the words of Hon'ble Prime Minister of India Sh Narendra Modi "there is an explosion of fintech innovation and enterprise in India. It has turned India into a leading fintech and startup nation in the world. The future of fintech and Industry 4.0 is emerging in India." The average footfall in the banks has reduced owing to the online transactions performed on mobiles. The basic services like balance inquiry, fund transfer, statement generation, cash withdrawal, cash deposits (through ATM and BC's), opening of demand and term accounts etc can now be performed without visiting a bank branch.

What owes to this change?

- Advent of ATMs

- Introduction of banking correspondents
- Use of debit and credit cards
- Mobile and sms banking
- Banking apps like YONO, U-Mobile
- Use payment apps by fintech companies

A change due to the advent of fintech companies:

India has seen tremendous growth on the Digital Payments front, clocking a monthly volume of over 5.7 BN transactions worth ~\$2 TN (Total Digital Payments) in September'21. India is home to the highest number of real-time online transactions with 25.5 Bn real time payments transactions in 2020, and is ahead of US, UK and China combined. The Fintech revolution in India is the culmination of years of effort in laying the groundwork towards developing key enablers through important initiatives

Jan Dhan Yojana: The world's largest financial inclusion initiative, "Jan Dhan Yojna", has helped in new bank account enrollment of over 435 Mn beneficiaries for direct benefits transfer and accessibility to a host of financial services applications such as remittances, credit, insurance, and pensions enabling FinTech players to build technology products to penetrate the large consumer-base in India.

Financial Literacy: Some of the recent initiatives towards improving financial literacy in India

include setting up the National Centre for Financial Education and implementation of the Centre for Financial Literacy project by the RBI. These steps aim to promote financial education across India for all sections of the population.

E-RUPI: e-RUPI is a person & purpose specific digital payments instrument to allow for contactless & cashless payment solutions and shall play an important role in making the Direct Benefits Transfer more seamless & effective. The solution is being adopted for cashless payments for Covid-19 vaccination.

India Stack: IndiaStack is a set of APIs that allows governments, businesses, startups and developers to utilise a unique digital Infrastructure to solve India's hard problems towards presence-less, paperless, and cashless service delivery. The India Stack has been the driving force behind the accelerated evolution of Fintechs. It is one of the most important digital initiatives undertaken globally, aimed at putting up a public digital infrastructure based on open APIs to promote public and private digital initiatives and has played a catalytic role in India's digital foundation and evolution.

Fintech is mostly an online financial delivery, while banks are mainly square feet type of delivery, which cause huge cost in banks' books. Indeed, until this issue is resolved, banks should be "scared" as noted by JPMorgan CEO; "Absolutely we should be scared -less about that, We've just got to get quicker, better, faster. you'd say we've done a good job, but the other people have done a good job, too."

It is imperative that the modern India needs banking more than banks. With the advancement of technology, fintech services and financial literacy, the outlook and the needs of contemporary India have undergone a tremendous change. With a view to cope-up with the ever developing India, banks too need to do something out of the box that will save not only their future but the whole financial system which the common man trusts. For this various changes could be brought in the world of banking.

To better understand the picture at ground level A Survey of 500 people was conducted in the Kaithal district of Haryana regarding their visit to bank, their motives behind it, and to know the usage of e-banking. In which sample was collected on Judgment basis so as to include people of all age groups, of different occupations, of different economic and financial class.

Questionnaire

- Name:
- Age:
- Gender:
- Occupation:
- Annual income:
- When did you last visit your bank branch
- Purpose of your visit to branch
- How many accounts do you have?
- Do you use bank applications (specify the name)
- Which payment app do you use?
- Are you satisfied with your banking experience?
- Suggest some change that you would like to see in banks

Findings of the Survey

People in the age group of 15-23 visited branch only for opening of their account and issuing of atm and then they conducted online transactions with the only exception of having to visit branch in case of failed transaction or inquiring about any transaction.

People particularly men in the age group of 24-40 yrs visited a bank branch mostly for loan related queries and for transactions of heavy amount. Their visit for simple transactions is rather less owing to online services.

People suggested the need to visit bank branch for bancassurance, mutual funds, other third party services or for PMJJBY, PMSBY, APY, SSA i.e. government sponsored scheme related transactions.

People in the age group of 41-60 yrs visited banks for simple transactions as well due to their inability

to use online platforms or lack of knowledge or due to their prudence. Those struck with the old banking ways visited rather frequently.

People above 60 yrs of age visited bank branch almost every month for the sake of their old age pension. But many amongst them used channels like BC's and atal seva kendras for withdrawal of pension.

Thus it can be seen that people are moving forward in the direction of e-banking now more than ever. High end customers demand customized and hassle free services from banks. Everyone wants their work to be done at a snap of their fingers. Be it big corporates, small businessmen, individuals etc, everyone demands next-generation services.

Now the question remains.....

How can we produce more banking than banks?

Does this mean we do not need any new bank branches?

What will be the future of banks?

What can be a new outlook of banks?

First of all through a thorough observation it is found that many people expect customized products and first-class experience. They are ready to pay a percent extra for the ease of getting their work done, for the readiness of services and for hassle free transactions. As the saying goes CUSTOMER IS THE KING, public sector banks need to understand the need of flexibility in products to provide customized products to the customer to fetch their interest and make a loyal customer base.

A dedicated and user friendly ONLINE CUSTOMER PORTAL should be made to provide customers the knowledge they wish to seek, for uploading of KYC documents and other loan related documents online. Though some are moving forward in the direction but is not a widely accepted practice. This online uploading of documents will provide greater transparency to both bank and the customer, a specified time frame for each kind of activity, will avoid red-tapism, will reduce wastage of paper and will make maintenance of record easier. This in true sense will be banking above banks.

Furthermore banks merely should not only accept deposits for the purpose of lending. They should provide one sure shot solution to all the financial services be it insurance, investment in mutual funds, tax saving consultancy, investment in G-Sec, CP and other money market instruments through depository services, consultancy services for management of finance. In short a single platform for all the finance related solutions under one roof i.e. act as an umbrella organization. This indeed will call for specialized services and specialized personnel but when executed with proper planning then only it will be banking above banks.

Now the question remains what about financial inclusion? What to make of the low-end customers who increase the cost of banks more than generating profit? Those who cannot operate online but make up of a huge customer base. Here Unit banking should be encouraged. Also for this the services of Banking Correspondents (BC) should be made available. Though banks have achieved a lot in this arena but it has certain problems like the BC's themselves are not educated enough, do not possess any specialized knowledge, are ignorant of the documentation needs, do not appropriately report to the banks. As to the solution to this problem, they should be recruited through a proper examination, proper training should be rendered, regular reporting mechanism should be built and BC's should be provided with fair remuneration. This will not only help in financial inclusion but will also create employment opportunities and fulfill corporate social responsibility.

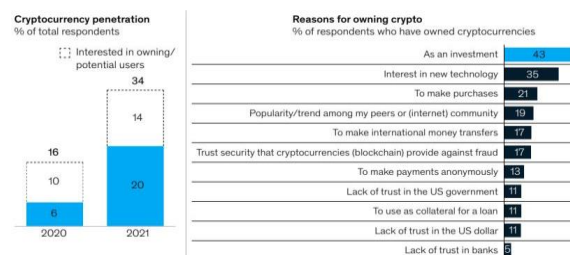
Outsourcing of various services for non-core activities to enhance productivity like outsourcing of Clearing House functions, selling of bad-debts etc

Artificial Intelligence Robots: Most private and nationalized banks in India have started to use **chatbots** or **Artificial intelligence robots** for assistance in customer support services. These technologies are made up of machine learning, chatbots, robotic process automation, and intelligent analytics. For

example a mere introduction of automatic passbook completing machine reduced the transaction costs. This technology removes the chances of human error and creates accurate solutions for the customers. Chatbots can provide a solution to basic needs of customers, can clear their doubts of financial transactions, can provide a platform for documents they need to upload for their specific purpose. Also, it can recognize fraudulent behaviour, feedback and assist in financial decisions.

Cryptocurrency: With blockchain technologies, usage of cryptocurrencies have increased globally. India too is advancing in this direction. Though not a legal tender, it has gained the interest of the contemporary youth. Banks could too make a step in this direction to meet the pace of the world. A survey of cryptocurrency penetration in the state of USA by McKinsey & Company is given below to understand the upcoming effect it could have in the Indian Economy.

Cryptocurrency penetration has more than tripled, primarily because of its use as an investment vehicle.



Source: 2021 McKinsey Digital Payments Survey

McKinsey & Company

Hybrid Cloud Technology: The biggest question that the digital or modern age has brought to banking is the need to communicate quickly. Banks need to be able to provide resources across the enterprise in a timely manner to solve business problems faster. Hybrid cloud also allows banks to offer new innovative offerings to their customers. For example – ICICI Bank has partnered with Zoho Books which is online accounting software. This allows Retail businesses or Shop owners to automate the basic reconciliation process

through Zoho Books. The partnership was made with the need for online data entry and to offer multiple payment options to the customers.

Data & Personalization System: Technology advances have given banks the ability to analyze and categorize more data about their customers. In 2021, more banks will start to use this data effectively to provide customers with the personalized experiences that customers have come to expect. Data and personalization will become the new battleground for traditional banks and challengers, with customers choosing their bank based on the level of customization and support received through a bank's digital channels.

Biometric verification System: Biometrics is Essential for security reasons, a Biometric verification system is changing the national identity policies. Banking services are just one of the many other industries that are experiencing new trends. With a duo or mixture of encryption technology and OTPs, biometric authentication is projected to create a highly secure database protecting it from leaks and hackers. Biometric withdrawal system has already been implemented but has a long way to go. For example biometrics can be interchangeably used at ATMs, POS etc. which will reduce the use of plastic money.

This upsurge in digitalization does not mean a reduction in the number of bank branches, the need is to reduce their operating costs so that pan India facilities could be provided. Banks are a basic financial institution which should be in the reach of every common man from Kashmir to Kanyakumari. Human resource could not be replaced as they are the greatest assets of the organization. The main motive is how well banks make use of them. The basic idea of banking above banks is to provide greater accessibility, ease of doing business, reduced costs and greater financial stability.

Conclusion

Thus to compete with the fintech companies, other NBFC's and social changes, the banks need to be a

level ahead and work continuously on its growth. A SWOT analysis to be done and threats need to be converted into opportunities. After all it is the risk taking capacity of the banks which can synergize its strengths to come up and provide BANKING ABOVE BANKS.

There is a need of paradigm shift in the working of banks both at micro and macro level. At micro level it needs to work as an umbrella organization and provide consultancy services in the branches itself. To work as a single place for all the finance related queries. To change the outlook of the branches where specialized services are available and all the financial needs of the customers are well tended to. Chatbots can be introduced for customer queries that can induce 24*7 banking and will be called banking from anywhere and at anytime. At macro level, blockchain technologies, cryptocurrencies, robotics, cloud technology, biometric verification systems etc can change the face of the banking industry. To compete in the smart world, banks need to be smarter than only will they provide banking above banks to the masses.

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