

Perceived Challenges of Digital Transformation in Banking Services

Giridharan G K, II M.Com FC, School of Commerce, Nehru Arts and Science College,
Thirumalayampalayam, Coimbatore

Dr.S.Balaji, Assistant Professor, School of Commerce, Nehru Arts and Science College,
Thirumalayampalayam, Coimbatore

Abstract

Digital disruption has significantly impacted organizations, and Indian banks are now facing the challenge of modernizing to stay competitive. To achieve this, they need a digital transformation plan that addresses legacy systems, cybersecurity, compliance, customer expectations, and cultural shifts. The strategy focuses on providing customized, secure banking services through digital channels, investing in technology like AI, blockchain, cloud computing, and workforce upskilling. A long-term commitment and willingness to change are essential for successful digital transformation. The research examines the impact of digital transformation on the banking industry, focusing on both challenges and opportunities. Previous studies have found that digital transformation significantly influences banking development, offering new opportunities and increasing development. Challenges include the need for employees to adapt to the changes in traditional systems and the need for regular training to improve their digital skills. Additionally, maintaining the system is a significant challenge, as cyber technology attacks are common and must be considered during digital transformation. Overall, the study highlights the importance of considering these factors when implementing digital transformation in the banking industry.

Key Words: Digital Age, Digital Transformation, Problem perception, AI.

INTRODUCTION

The banking industry has experienced a significant transformation due to digital advancements, including online banking, mobile banking, and digital payments. Customers are increasingly choosing easy-to-access, fast, and safe banking services. Banks must adapt to these changes and capitalize on opportunities. Banking is crucial for a country's economy, as it paralyzes economic activity and impacts national and global economic growth. It also serves as a center for economic transactions, including retail banking, which relies on third-party funds absorption. The banking industry plays a vital role in driving economic development and stability. The banking sector has undergone a significant transformation due to technological advancements, transforming traditional banking services into digitally systematized processes. This has led to a new customer demographic heavily dependent on digital platforms. The early adopters of the internet have posed a challenge to the banking sector in meeting the demands of this generation. Digital banking has enabled users to access banking services 24/7 without physically visiting banks, benefiting banks, financial institutions, users, governments, and businesses. Digital software has reduced the number of steps and transactions involved, reducing the risk of costly financial errors. Digital banking offers various features, such as investing in stock markets, gold, and cryptocurrencies, directly through online banking apps. However, banking marketers must be aware of the issues and key challenges that arise from digital banking services.

Previous studies have highlighted various issues related to digital banking, including security, technical issues, technological resource shortages, digital skill gaps, and challenges like innovation, personal relationships, customer expectations, and cultural shifts. Despite secure digital banking sites and mobile apps, no system is foolproof, and accounts can be hacked, leading to identity theft. Additionally, the use of apps like Facebook can negatively impact health, as a University of Michigan study found that Facebook usage decreases happiness and overall life satisfaction. Online payment systems are also susceptible to technical disturbances.

Objectives of study

1. To study the digital banking transformation in Indian Banking sector
2. To explore the emerging issues of digital banking in Indian banking sector
3. To analyse the problem perception on digital banking services.

Research Methodology

The present study is purely descriptive in nature, based on primary and secondary data. The primary data collected through structured questionnaire. The secondary data is collected from various sources like reports relating to digital banking published in banking sector, research papers, articles, journals, newspapers, internet, etc.

Sampling framework

Sample size is taken as this research study is 100. Convenient sampling method was used in this study is based on Coimbatore customers.

Historical background of Digital Banking Transformation in Indian banking services

Digital banking, which emerged in India in the late 1990s, has revolutionized financial transactions by increasing transparency and cost efficiency. It automates traditional banking services through digital platforms, eliminating tedious paperwork like checks and demand drafts. The future of finance will likely involve online banking services, but adoption and acceptance of digital banking are crucial. The COVID-19 pandemic highlighted the importance of contactless payments and digital banking, as personal contact and physical visits were limited

Emerging Issues of Digital banking in Indian Banking Sector

While digital banking is unquestionably a blessing to the banking industry, it has certain risks that we should be aware of. COVID-19 has worsened the existing challenges of the traditional banking business model such as tight regulation, revenue pressure, and competition from digital entrants.

Technology Stability and Flexibility Risk: Adoption of untested or obsolete technology and choice of defective or inappropriate technology gives rise to technology risk. This risk mainly arises due to the usage of computer systems for the day-to-day conduct of the banking operations,

Cyber threats: Phishing attacks is the most frequent problem with cybersecurity in the banking sector. Phishing is attempting by attackers to misguide users to click on a bad link which leads to downloading of malware, or directing them to an unreliable website. This is used to enter into Banking network and conduct a more severe attack like APT (Advanced Persistent Threat), this will have a disastrous effect.

Information Security Risk: Passwords, data encryption, network intrusion detection, network and host-based firewalls systems, access control lists, are the logical controls. Information Security risk refers to the damage that attacks against IT systems can cause. IT risk covers a wide range of potential events including data breaches, reputational damage regulatory enforcement actions, financial costs,

Operational Risk: The most common risk of digital banking is Operational risk or transactional risk. It involves Incorrect transaction processing. Mollifications in the integrity of data, data privacy, and confidentiality. The operational risk increases due to compromises in, data privacy, the integrity of data, and confidentiality

Regulatory Risk: The risk of having the 'licence to operate' withdrawn by a regulator, or having conditions applied (retrospectively or prospectively) is a regulatory risk.

Third-party Risk: Third-party risk arises when banks outsource certain services or use software built by third parties to complete certain tasks experiencing an adverse event like operational disruption, data breach, reputational damage.

Money Laundering Risk: Digital banking is a digital service; thus, it frequently uses false accounts to launder illegal money. Today businesses are exposed to more risks due to change in money laundering in the digital age. Accessing and copying user credentials, developing counterfeit software, or crypto money laundering in digital banking are just a few of the activities that digital service providers are exposed to. Digital Banking customers are allowed to Log in with their digital profile information on a tablet, computer, or phone. Digital banking allows customers to continue their activities by logging in with their digital profile information on a tablet, computer, or phone. This system, however causes to financial criminals to conduct money laundering transactions without going to banks quickly. Banks must comply with KYC regulations and anti-money laundering regulations to limit fraud.

Challenges of Digital Banking in Indian Banking Sector

The present study has explored the following digital banking challenges:

1. Understanding customer expectations: One of the big challenges of digital banking is understanding customer expectations. They expect the digital banking services to be very secure, convenient, personalized, easy to use, they also expect High-quality customer service low fees security and fraud protection. accessibility positive brand reputation.
2. The inadequacy of IT employees: Skilled workforce challenge plays a very crucial role in Banking sector. At present banking sector in India has been facing multi challenges such as strong competition, regulatory risks, technology upgradation, etc., The use of sophisticated ICT along with computer science to empowers the banks to offer better services to its customers in a reliable, secure, and affordable manner and withstand competitive advantage over other banks.
3. Increasing Competition: There has been a severe competition in Banking Sector. Remarkable changes during the last few years in the financial sector have given raise to severe competition in the banking industry.
4. A Cultural Shift: Cultural shift comprises renovating the entire culture of a bank, from the top down. The objective of cultural change in banking sector is to acclimatize behaviours and norms within the scope of the bank's core values, and to bring these in line with a new business strategy or direction. It originates from the experience of encountering innovative ways of doing things that encounter the basic belief that your way of doing things is the right way. Changing Business Models.
5. Customer Retention: Customer retention is another big challenge for the banks. Banks need to attract and retain customers by understanding the customer's needs, building customer relationships, providing reliable both online and offline experience, providing related information.

Analysis of Data

Demographic profile of customers

Table 1

Demographic profile of customers

DEMOGRAPHIC PROFILE OF THE CUSTOMERS

Category	Options	Frequency (N=100)	Percentage
Age	Below 30	25	25
	31-40	20	20
	41-50	23	23
	Above 50	32	32
Total		100	100
Gender	Male	49	49
	Female	51	51

Total		100	100
Marital Status	Married	49	49
	Unmarried	51	51
Total		100	100
Educational Qualification	Upto HSC	20	20
	Graduate	18	18
	Post Graduate	13	13
	Professional	23	23
	Others	26	26
Total		100	100

The above table shows the demographic profile of the customers in kanniyakumari district. Majority of the customers 32 (32) percent of the respondents are in the age group of above 50 years as they have a loyalty of customers in financial institution, 25(25) percent respondents are in the age group of below 30 years, 23(23) percent of the respondents are in the age group of 41-50 years and the remaining 20(20) percent of the respondents are in the age group of 31-40 years. Among the Gender wise classification of respondents exhibits that 49 percent are males and 51 percent are females. Hence, it is observed that majority respondents are female since, it clear that females are also purchasing online mode pf payment. The marital status wise respondents indicated that 49 percent of respondents are married and 51 percent of respondents are unmarried. The educational qualification of the respondents revealed that 26 percent respondents are others, 23 percent are Professionals, 20 percent respondents are having Upto HSC, 18 percent respondents have completed their education graduate level, and 13 percent belongs to postgraduate category.

Problem perception on Digital Banking Services

Table 2

Problem perception on Digital Banking Services

S.No	Problems	Mean	Std. deviation	't'	Sig
1	User Experience	4.02	0.791	12.893	.000**
2	Security Concerns	3.97	0.822	11.799	.000**
3	Access and Inclusion	4.42	0.496	28.626	.000**
4	Regulatory Compliance	4.49	0.502	29.657	.000**
5	Cost and ROI	4.54	0.501	30.744	.000**
6	Integration and Legal System	4.07	0.795	13.466	.000**
7	Customer Expectations	4.50	0.503	29.850	.000**
8	Digital divide mode	4.55	0.500	31.000	.000**
9	Trust and scams	4.50	0.503	29.850	.000**
10	Technology infrastructure	4.48	0.502	29.475	.000**
11	Customer support	4.52	0.502	30.272	.000**
12	Privacy concerns	4.48	0.502	29.475	.000**

Source: Primary Data

Table 2 clearly shows that problem perception on customers towards digital banking services. 'Digital divide mode' is highly perception on digital banking services with a highest mean score of 4.55. Followed by cost and ROI, customer expectations and customer support are given the rank of second, third and fourth with a mean score of 4.54, 4.52 and 4.48 respectively. The lowest perception on customers towards digital banking services variables are 'security concerns' and 'user experience'.

Findings

Majority of the customers 32 (32) percent of the respondents are in the age group of above 50 years as they have a loyalty of customers in financial institution. Gender wise classification of respondents exhibits that 49 percent are males and 51 percent are females. The marital status wise respondents indicated that 49 percent of respondents are married and 51 percent of respondents are unmarried. Table 2 clearly shows that problem perception on customers towards digital banking services. 'Digital divide mode' is highly perception on digital banking services with a highest mean score of 4.55. Followed by cost and ROI, customer expectations and customer support are given the rank of second, third and fourth with a mean score of 4.54, 4.52 and 4.48 respectively.

Conclusion

Banks have recently prioritized information technology in order to improve customer service. Customers have completed their banking-related tasks digitally, saving time and money even during the difficult lockdown scenario. During the lockout, digital banking has surged in popularity. Nonetheless, the banking industry faces a number of challenges, including a dearth of networking opportunities, poverty, economic regression, and the size of the nation. Digital transformation involves more than just making the transition from traditional banking to a digital world. The banking industry is experiencing a significant shift in understanding client engagement and preferences.

References

1. Acharya, V. V., Khandwala, H., & Öncü, T. S. (2013), "The growth of a shadow banking system in emerging markets: Evidence from India. *Journal of International Money and Finance*, Vol.39(2), pp.229–230.
2. Rajeshwari Shettar (2019) "Digital Banking An Indian Perspective" *Journal of Economics and Finance*, Vol. 10, (3) pp. 03-05.
3. Ravi, C. S. (2017) "Digital payments system and rural India: A review of transaction to cashless economy". *International Journal of Commerce and Management Research*, Vol.3(5), pp.170–173.
4. Zhan-Günay, E. N., Günay, Z. N., & Günay, G. (2013) "The impact of regulatory policies on risk taking and scale efficiency of commercial banks in an emerging banking sector". *Emerging Markets Finance and Trade*, Vol.49 (5), pp.90–98.
5. Pramanik, H. S., Kirtania, M., & Pani, A. K. (2019). *The essence of digital transformation - Manifestations at large financial institutions from North America. Future Generation Computer Systems*, 95(4), 323-343. <https://doi.org/10.1016/j.future.2018.12.003>.