

6. Transition from Traditional Banking to the Digital Finance Era

Ms. Nikita Mascarenhas, Mr. Siddhesh Kolge

Lecturer, B.com (Accounting & Finance),
Chikitsak Samuha's S.S. & L.S. Patkar College of Arts & Science, and V. P.
Varde College of Commerce & Economics.,
Mumbai, Maharashtra, India.

Abstract:

The finance industry over the years have gone through tremendous change and this is due to rise in technological advancement. The banks which we once saw as physical branches in every place is now digitalized and is beyond just banking needs. This chapter explores various traditional banking characteristics and how over the years it has benefited various customers but with time things change and the dawn of 2000 brought about a revolution in banking industry with mobile banking, fintech innovations, block chain and artificial intelligence. With each person stepping out either for studies or for work it difficult to have access to bank in their given hours. Banks getting digitalized has made life convenient, operations more efficient and easily accessible at any time. This chapter talks about the radical change that has taken place since end of 1990's and still there its undergoing change which makes the financial institute highly innovative and competitive.

Keywords:

Traditional banks, digital banks, artificial intelligence, block chain, security, Fintech

6.1 Introduction To Traditional Banking:

Traditional banks have been long established banks for over more than two centuries. Banks started as a means for saving, but over the years traditional bank have changed and the offer wide variety of financial services such as loans deposit account saving account current account credit facility different kind of investment options that are present it's just not help individual but also business owners to manage and secure the money in different way.

Traditional banks are rooted with a lot of rules and regulation, the government over sights every banking operation according to the rules and regulation laid down to them, so that no mishap should take place. Because of this a lot of trust has been built among the customers over the years especially for those banks which have been long standing through the years.

The older generation especially even in today's time prefers to go to the bank and get their transaction done as they find it more convenient and experience customer service delight. Traditional Bank provides customer service which online banks cannot provide as it gives a personal touch and customer engagement.

6.2 Characteristics of Traditional Banking:

1. **Home branch and different branches:** Traditional banks are known to have a home branch and different branches, you can access your account through different branches also but your main account will be there in the home branch where your account was initially opened. With different branches in urban and rural areas, customers still have the privilege to access their account from any of their branches.
2. **In person transaction:** In person transactions can never go out of fashion at any point of time, one of the biggest benefits a person can enjoy in traditional banking is meeting the bank representative in person with any kind of queries, loan account or investment needs.
3. **Fixed operating hours:** Traditional banking work even today works on a fixed time (9am-4pm). Customers can come in this time and get their banking needs covered. Beyond their accepted time, banks do not allow any transactions.
4. **Customer experience and engagement:** Customer service is an intangible asset which cannot be provided in an online transaction. All queries are sorted on a personal one to one basis, which makes the customer experience even more delightful.
5. **Rules and regulation:** The entire banking system is governed and ruled by the RBI with strict rules and regulation. RBI sees to it that every bank follows these rules and strict watch is observed by RBI, to safe the customers of the bank.

6.3 Advantage of Traditional Banking:

1. **Personalized banking** A face-to-face interaction helps to know your client and their financial need much better. A person can create a good tailored financial advice to its client. A lot of customers still prefer traditional bank for the relationship that it has built with the bank and it gives a personalized experience.
2. **Trust factor:** Bank which has been there for years like SBI, Bank of India, HDFC, ICICI Bank and others, which have a standing over the years have developed a trust with people who are the consumers as well as the potential customers.
3. **Still suitable for older generation:** The older generation still prefers to do their banking in traditional manner, they are still not tech savvy. They want to visit the bank for every small need of theirs, and the bank in return is happy to serve them. Due to this, customer satisfaction as well as customer engagement is at its peak.
4. **No worries of hackers or scams:** Traditional bank is absolutely safe as all transactions are still done on a bank slip and through cash method whether it is depositing of cash or withdrawal of cash people don't have to worry about any kind of scammers or hackers.
5. **Locker facility:** Additional to all the banking facility, bank provides with locker facility. These lockers come in small, medium and large size, with a minimum rent for the year and a deposit amount that is refunded. Many people find it safe to keep their jewellery as well as their documents in the locker. Locker cannot be accessed with only one key, there is a combination of bank key and customers key, only then it can be accessed. This makes the facility even more safe.

6.3.1 Disadvantages of Traditional Banking:

1. **High transaction fees:** Traditional Bank do charge a higher fee on withdrawal, overdraft facility, passbook facility and others. Most of the banks when you do not maintain a minimal balance in account, a fine is levied on the customer.
2. **Slow service:** Certain Bank are absolutely very slow with every single transaction people need to wait in long queues just to get their money withdrawal or to get the money deposited in the bank. People who don't have access or don't understand to use a debit card find it very difficult, because even their basic transaction takes very long to proceed.
3. **Limiting banking:** Limited banking hours are actually a major drawback in today's time. As most of the customers are working people. People in remote areas face even much more difficulty as transportation is an issue. By the time a person reaches the banking, the banking hours are over as their entire time is lost in travel.
4. **Theft and Robber:** Physical banks may not have scams and hackers but many episodes in the past tell us about theft and robbery that have taken place and all the hard and money has been lost.
5. **Lack of innovation:** Some banks are slower in adopting to innovation and becoming digital, or even adopting to new investment scheme, due to which many consumers may find difficult to have transactions with them and in turn, bank lose their clients.
6. **Low interest rate / same schemes:** Traditional Bank users offer very low interest rate and they may continue to invest in the same recurring deposit and fixed deposit schemes which are there over the years. Because the bank fails to adopt new scheme or current investment ideas, customers may not benefit of mutual funds and the updated investment that are there in the market.

6.4 Digital Finance Era:

Introduction:

Banks are known for their financial services they offer but with the dawn of the new era these financial services have changed and turning into Digital finance. Digital finance refers to merger of traditional finance into digital finance services. With the help of the new technology, we can say it has become much easier for people to do their financial transaction at any time anywhere. In today's time, each person in the house is busy with their 9-5 job, which makes it impossible for people to visit banks in their working hours, but with banking getting digitalized, people have also adapted to online banking and it a biggest boon of the decade as they can do their banking transaction with just a click. Whether a person stays in urban area or rural area, he can easily access their account at anytime and anywhere. It doesn't stop here, with the technological advancement digital banking is evolving even more.

6.5 Historical Highlights:

1. **Online banking (1990s-2000s):** The beginning of 2000s brought along with it the development of Internet and boon for people as they were able to access internet and to do basic banking transaction. This was the beginning of online banking.

- 2. Mobile banking apps (2000s):** Almost after a decade thing started to change even more as people went on to use smartphone, touch screen phones and better internet facility which brought mobile banking for everyone, now checking the balance deposit could be done on the mobile, along with that came the biometrics authentication because of which user got much more secure.
- 3. Rise of Decentralized finance (DeFi) (2017 to Present):** DeFi is one of the groundbreaking revolutions in financial world, with blockchain technology, there came DeFi – Decentralization of finance. In DeFi customers are able to investment, borrow and lend through smart contract. The bank doesn't act as an intermediary but rather it is user to user alone.

Examples: Uniswap and SushiSwap

- 4. Central Bank digital currencies (CBDC) (2020s):** CBDC it is a form of a physical currency and it is issued by Central Bank of India that is the RBI, it is a pilot study that is being conducted with 15+ banks are involved. This doesn't work like cryptocurrency. These transactions are much more secure transparent with centralized it is issued and regulated by central authorities which also maintains value of the national currency.
- 5. Embedded finance and open finance (2020s to Present):** Embedded finance is a new picture of the current time. Embedded finance means lending, payments and insurance or even investing directly into non-financial platform.

Example you look at makemytrip.com but you find an insurance over there that you can book it is an example of embedded finance.

- 6. Unified payment interface in India UPI:** UPI has been a complete game changer in India where a real time transaction takes place with low-cost transaction. It has expanded not just in metropolitan cities but also in rural areas. You will find a local vendor or a Pani puri wala using an UPI, that itself is a clear advancement of digital technology. With COVID-19 UPI transaction got more momentum.

6.6 Conclusion:

Financial system will keep changing and shaping, it's no longer just about saving but about how we manage money – making services more accessible, faster and convenient. It definitely benefits the people, but with more advancements we must focus on making it more secure, safe and accessible to everyone.

6.7 References:

- European Central Bank. (2023, October 18). *Eurosystem proceeds to next phase of digital euro project*. Retrieved from <https://www.ecb.europa.eu/press/pr/date/2023/html/ecb.pr231018~f8e9b1d8f0.en.html>
- Redseer Strategy Consultants. (2023). *UPI usage and adoption trends*. Retrieved from <https://www.redseer.com>

3. Wikipedia contributors. (2024, April 13). *Decentralized finance*. Wikipedia. Retrieved from https://en.wikipedia.org/wiki/Decentralized_finance
4. Wikipedia contributors. (2024, April 13). *Central bank digital currency*. Wikipedia. Retrieved from https://en.wikipedia.org/wiki/Central_bank_digital_currency
5. Wikipedia contributors. (2024, April 13). *Open finance*. Wikipedia. Retrieved from https://en.wikipedia.org/wiki/Open_finance
6. Wikipedia contributors. (2024, April 13). *Unified Payments Interface*. Wikipedia. Retrieved from https://en.wikipedia.org/wiki/Unified_Payments_Interface
7. Investopedia. (2021, May 11). *How to choose a bank*. Retrieved from <https://www.investopedia.com/how-to-choose-a-bank-5183999>
8. Investopedia. (2011, February 15). *Internet banks: Pros and cons*. Retrieved from <https://www.investopedia.com/articles/pf/11/benefits-and-drawbacks-of-internet-banks.asp>
9. Investopedia. (2021, March 31). *How to go from unbanked or underbanked to banked*. Retrieved from <https://www.investopedia.com/how-to-go-from-unbanked-or-underbanked-to-banked-5096964>
10. Investopedia. (2021, May 11). *How to choose a bank*. <https://www.investopedia.com/how-to-choose-a-bank-5183999>