

Digital Banking– A challenge Against Cooperative banks

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Banking is known as the backbone of economy of every country. Without having an effective banking system, country cannot develop. Digitalization has impacted each and every sector. Banks are not exceptions from the digitalization process. In India telecommunication network has not spread in rural area. Cooperative banks are the main service provider in rural area. Still these banks have not adopted digitalization in their day-to-day transactions. Present research paper elaborate challenges against cooperative banks for adopting and implementing the digital banking system.

Keywords : Digital Banking, Cooperative banks

Introduction

The financial foundation of every nation is rooted in its banking system. A country's development is hindered without an efficient banking infrastructure. The wave of digitalization has swept across all sectors, whether it is transportation, construction, power & energy, technological resources, education, insurance, medical, banking etc. So, the maximum spending of each and every country should be on the infrastructure development.

After getting independence Government have started several initiatives to develop banking sector such as nationalization of Central and state banks, licenses to private and foreign banks, cooperative Bank, small finance Bank, Housing banks, non-banking financial institutions, insurance and entry of private insurance players, foreign direct investment etc.

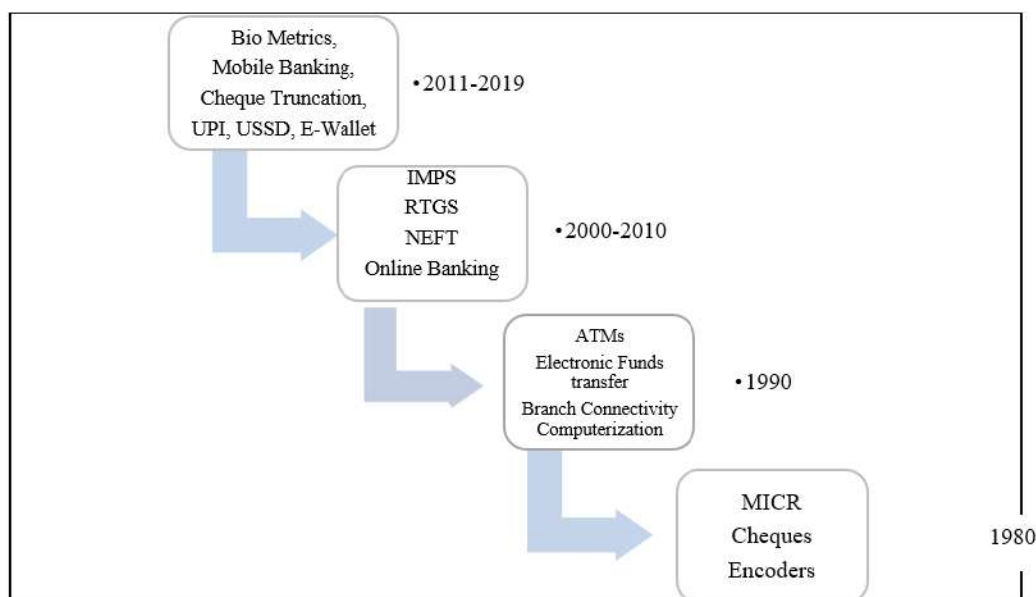
Banking is considered one of the main pillars of economic & financial development. The growth of economy depends on concrete banking system. Efficient & effective baking system can nurture the economy. The banking industry what we observe and experience today actually it has a long history. The banking industry is not developed in a single day or in a couple of years. It took an almost 200 years to come in this advanced digital age of banking. Today we are taking advantage of digital banking services. The boom of digitization has touched the lives of common man in almost all aspects and holds the potential to completely redefine the human experience it will simplify, enhance and enrich the lives of common man.

Digitalization of Indian Banks

As of date in India there are 12 public sector banks, 21 private sector banks, 12 small Finance banks, 4 payments banks, 47 regional rural banks & 45 foreign banks providing services.¹ Besides these 105,074 cooperative banks are also existed. Among these 1,514 are Urban banks and 103,560 are rural cooperative banks.²

Digital banking means the digitalization of the traditional banking activities and services that were earlier only available when customer visit to the bank in person. Traditionally to avail any kind of bank service customer has to visit the bank branch. In digital banking transactions are done through digital platforms. These services can be accessed through any digital device such as smart phone, computer or laptop etc.

Fig. 1: Snapshot of Technology Development in the Indian Banking Sector



Source: www.wikipedia.org

Above chart (Fig. 1) indicates how the banking sector technologically developed over the period of years. The need for computerization of the banking sector was felt in the late 1980s. So, banks started using information technology initially with the help of computer and LAN. Then further evolution, banks adopted the core banking platform. It was when branch banking was changed to digital banking. The digital banking technology allowed banks and their customer to raise their comfort level. Banks realize the importance and the benefits of digital banking.

Thereafter the process of digitization of banks was initiated. Many foreign countries were looking towards India to expand their banking activities. Henceforward, major transformation was happened due to private and foreign banks. Due to LPG (liberalization, privatization, Globalization) private and foreign banks were entered in the Indian banking sector. As a result, Indian banks started to offer digital services to their customers. ICICI bank is known as the first bank to offer digital service to the customers. Gradually, the digital banking was taking place in banking sector. Customers are becoming increasingly habitual to the convenience of digital services and expect the same kind of service from their banks also. Banks that do not digitize their services those have the risk of losing customers to more digitally-savvy competitors.

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Role of Cooperative banks In India

Cooperative banks have been operating in India since more than 100 years. In rural and urban area these banks are an important part of the financial system and play a vital role by providing banking facilities. Such banks are different from commercial banks. Cooperative banks run on the principle of helping the rural community, co-operation among the rural, mutual help, democratic decision-making process and open membership to all. The main object of these banks is cooperation for the development of rural peoples. So, these banks work on the principle of “no profit no loss.”

These banks are also financial intermediaries in the financial system. Cooperative banks provide credit facility mainly for financing agriculture and allied activities, rural based micro and small size enterprises, trade and industry in urban & rural areas. Such banks are preferred and known as leading lending institute in these areas. In recent years especially in rural area such banks and their branches have increased significantly. These banks are registered under the cooperative society’s act.

Digital transformation of co-operative banks

Rural area is still an attracting source of revenue for the banks. Because near about 65% Indian population lives in rural area. The probable customer base is a major source of revenue to cooperative banks from rural area. These banks have an opportunity to grab these customers. Rural people don’t have any place to keep their income safe except bank.

India's digitization has started a decade ago. Digitization has made human life very easy. Nowadays every sector is digitized, a flow of data to and fro is happening smoothly. Government already have started to digitize each and every sector whether it is transportation, insurance, manufacturing etc. To promote digital transaction government and private players launched various applications such as BHIM-UPI, Google Pay, PhonePe, Paytm, Aadhar payment bridge, etc. facilities for transferring money from one account to another account. These initiatives helped Bank and the customers. Because implementing digital banking customers were able to reduce their transaction cost. Today customers do not need to visit their banks for executing financial and non-financial transactions. Digitization process was successfully implemented in nationalized and private banks.

In India, telecommunication networks have spread in urban area. The network coverage in urban area is excellent, but it is not fully penetrated in rural areas. Very few telecom companies are providing better internet services in the remote and rural area. Lot of peoples still faces obstacles for accessing the internet service in these areas. Cooperative banks serve as the primary financial institutions in these regions, yet they have not integrated digital processes into their daily operations. Still these banks have not adopted and implemented digital banking systems in rural areas.

A report by NPCI states that more than 600 banks are live on UPI and providing the digital services. The impact of digital banking on cooperative banks is profound and multifaceted, influencing their operations, customer interactions, and overall performance.

Table 1: Urban & Rural internet subscribers of last five years

	2018-19 (In million)	2019-20 (In million)	2020-21 (In million)	2021-22 (In million)	2022-23 (in million)
Urban Internet Subscriber	409.72 (64.35%)	457.23 (61.52%)	502.53 60.89%	493.08 (59.77%)	523.26 (59.37%)
Rural Internet Subscriber	227.01 (35.65%)	285.97 (38.48%)	322.77 39.11%	331.81 (40.22%)	357.99 (40.62%)
Total internet Subscribers	636.73	743.19	825.30	824.89	881.25

Source: Annual Reports | Telecom Regulatory Authority of India (tra.gov.in)³

The table 1 indicates that overall, in the last 5 years internet subscribers are increasing in rural and urban area. But urban has near about 60% internet subscribers as compared to rural. It can be concluded that rural peoples do not have majority of internet subscribers' base. It can affect to use the digital services of banks in rural area.

Due to digitization the importance of rural banks has been reduced on large scale, especially after demonetization. Customers recognize the importance of such banking apps in the lockdown period. The journey to digitization of economy has been one of the big challenges in front of banks as near about 65% population of country resides in rural area. In rural area internet services are not adequate and the infrastructure is not installed. So, providing such kinds of advanced digital services to the customers is not happening right now.

Challenges of Digitalization of banks

1. Gaining Customer trust

Customer trust is an important factor for implementing digitalization in banking sector. Generally, customer of rural area doesn't trust on the digital platform. Still, customers prefer to visit banks for small jobs. Such as to know the bank balance, bank statement, transferring amount from one account to another, etc. digital banking has the capability to do all this task at a click on button. This is relatively a new concept, and mostly old customer still go with the old system of banks. They may be skeptical of using the digital banking services. Therefore, these banks need to build trust among the rural customers, by building reliable, intuitive platforms, develop best practice in mind, while being supported by excellent customer support and straight forward ways of communication with customers.

2. Competition in the digital banking space

Banks and other financial institutions are increasing day by day. Today India is known as the number 1 populated country and now we are placed in terms of demographic dividend. Over 62% people in the country fall in the age group of 15 to 59 years which is expected to rise up to 65% by 2035. The main factors of digitalization are internet penetration, availability of smart phones, government online services, and lastly the number of devices connected to the internet.

As the number of users are constantly increasing banks are getting pressure for providing digital services. The number of employees per user is decreasing and it is difficult to provide services to the additional customers. So, the digitalization of services of the bank is only the solution which can help the customers to execute transactions. Similarly, banks can also reduce the working pressure on the staff.

3. Illiteracy of bank customers

This is one of the major hurdles for implementing digital banking. The customers do not have adequate knowledge to use the digital services offered by the banks. IMPS, NEFT, RTGS, banking app, OTP, are the recent concepts, but customers don't know how to execute the financial transactions. Such a major issue can be resolved by spreading awareness among the rural people and with adequate training.

4. Cyber security and fraud prevention in Digital Banking

The wave of digital transformation has flooded every facet of business and life but like any other technology this also has come with considerable challenges in the form of fake content, online frauds and cyber security. Banking sector is not an exception for online fraud. Cyber security is number one risk for the banks. 72% of global chief risk officers view cyber security as the top risk.⁴ The government has taken several cyber security measures to ensure robust data delivery in banking sector. Still, rural people are cheated by the online scammers and hard-earned money is lost within few minutes.

5. Challenges for accessing internet

Globally India is the second largest internet user country.⁵ Despite several improvements, in internet & broadband connectivity and high-speed networks, digital infrastructure needs to be developed in remote and rural areas. Besides this geographical challenges, affordability of internet services, low accessibility of internet services are also other challenges in rural area. These are also the main obstacles for spreading the digital services of banking in remote and far-flung areas.

The rise of digital technology has compelled cooperative banks to undergo a process of learning, adaptation, and evolution in order to succeed amidst fierce competition driven by other banks, financial technology and technological advancements. With the rise of small banks and the online lending platforms cooperative banks have to improve their presence on digital platform in coming years to survive in the stiff competition or they may fail in the business.

In summary, digital banking has a transformative impact on cooperative banks, offering opportunities for enhanced efficiency, customer reach, and service innovation. As to compete with the government and private sector banks cooperative banks need a drastic improvement in their digital services, so that rural customers are take the advantages of the digital banking with ease and convenience. At the same time, digital banking presents challenges related to cybersecurity, digital divide, and implementation costs that must be carefully managed to fully realize its benefits.

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