

IMPACT OF DIGITAL TRANSFORMATION OF BANKING SECTOR IN RURAL AREAS

Dr.S.Amudhan¹, Dr. Sayantani Banerjee², Dr.J.Poornima³

¹Assistant Professor, Department of Commerce and Management, St. Joseph's College (Autonomous), Bengaluru

²Department of Commerce, Assistant Professor, St. Joseph's College (Autonomous), Bengaluru

³Assistant Professor, Department of Professional Accounting and Finance, Kristu Jayanti College, Autonomous, Bengaluru

Abstract

The use of digital technology to improve present processes or introduce new methods of conducting company operations, which improves the customer experience and leads to better currency exchange rates for the firm, is referred to as digitalization. Digital transformation in digital age means redesigning corporate procedures. The main aim of this study was to look at the socioeconomic characteristics of respondents who were chosen from the study area. The four main parts of digital transformation are technology, software, data, and organizational reorganization. In India's banking system, banks play a critical role. They are in charge of managing public finances and investing in the expansion of business and trade. In emerging countries like India, where other financial sectors are still in their infancy, the banking industry accounts for the majority of the financial sector. Banks' stability is vital since they act as trustees of public funds, mobilizers, and funders of various operations at the regional and international levels. The banking business has grown from a basic middleman to a vast commercial enterprise. Hence, the article concluded that the impact of the digital banking services on rural customers is significant.

Key Words: Digitalization, ICT, Rural Area, Bank Transformation and Banking Sector

Introduction

The banking business is through a critical transition period in which all working visions are rapidly changing, and technology is the most powerful force, allowing banks to compete by combining knowledge with new goods or services. As a result of the extensive use of information technology at home and at work, many tasks are now done electronically. The Indian customer is slowly but steadily converting to electronic banking. The use of ATMs and the internet is becoming more common. The biggest issue facing banks is how to protect their diminishing profitability as a result of competition. A drop in profit needs an

increase in transaction volume, which can only be accomplished by utilizing technology and providing good customer service¹. As a result, technological progress is critical not only for improving services but also for maintaining a robust client base. It has changed the way people promote, advertise, distribute, price, finance, and save money by using electronic channels and items. These advances need a dynamic, aggressive, flexible, and developing workforce to meet the needs of customer connections, product differentiation, values, reputation, and regulatory prescriptions.

Bank Transformation in Rural Area-Review

¹Nugur Moni Das & Joyeta Deb (2017), "Regulatory Capital and its Impact on Credit Risk: The case of

Indian Commercial Banks", The IUP Journal of Bank Management, Vol.16, No.4, pp.12-14.

Modernization and technological improvement were stressed in the second wave of banking reforms. The passage of the Information Systems Act of 2000 has hastened the adoption of e-banking. E-banking has grown into a global phenomenon. It is an important and visible tool for significant progress, growth, modernization, and enticing competitions. Indian banking is facing a fork in the road in the post-reform period. Several transformation elements have undergone a paradigm shift. Several internal and external factors have influenced the bank's decision. Banks are being forced to make major changes in their day-to-day operations as a result of tough competition and global pressures². Another element requiring banks to implement internal and external reforms in order to handle the e-age problems is the WTO.

Rajeshwari (2019)³ explored that the current need for banking is anytime, everywhere banking, which necessitates innovative, secure, and ready-to-use solutions to satisfy the demands of empowered and tech-savvy customers. The transition from traditional banking to a digital world is only the beginning of digital transformation. It is a significant shift in how banks and other financial organizations learn about their consumers, communicate with them. Understanding digital customer behavior, preferences, choices, expectations, and goals, among other things, is the first step toward a successful digital transformation. This shift causes huge organizational shifts from a product-centric to a customer-centric perspective. The role of digitization in Indian banking, variables influencing the scope of digital banking in India, digital banking trends in India, and technological milestones in Indian banks are all discussed in this article. The data used in this investigation is secondary. The information was gathered from a variety of sources, including academic papers, the government of India publications, RBI bulletins, and verified websites. According to the survey, digital banking has significantly lowered bank operating costs. Banks have been able to charge

reduced service costs and offer higher interest rates on deposits as a result of this. Bank earnings have increased as operational costs have decreased. Digital banking, according to the report, has huge potential to reshape the landscape of financial inclusion. Digital banking's ease of use can hasten the economy's absorption into the mainstream.

The Future of Digital Transformation in India's Banking Sector

According to the Economic Times, the disease has completely changed how people go about their daily lives, from shopping to working to banking. Several evolutionary changes are anticipated in the era of internet banking. Some consumers may expect completely autonomous banking operations due to a lack of time and competence, while others will demand high-level interaction. As a result, the banking business in the future will be extremely adaptive. According to Deloitte, the rise of digital banking is putting customers at the center of every digital strategy, which institutions must undertake now in order to integrate successfully by 2030⁴.

In a few years, financial institutions will be required to profile their consumers methodically and precisely in order to meet legal requirements while also delivering new services that benefit customers. Many people are interested in information solutions, and they are the future of banking. Artificial intelligence, augmented reality, distributed ledgers, and automation will all help to customize the banking experience even more. To summarize, the future of banking is digital change in almost every vertical, and the sooner banks react, the better.

Need for Digital Transformation in the Banking Sector and Its Importance

² Padmaja, R, Rifana Meera, M, & Valliyil 2017, 'Employee's Attitude towards Adoption of Electronic Banking Services: A Case of Public Sector Banks', International Journal of Banking, Risk and Insurance, vol. 5, Issue 2, pp. 11-21

³ Rajeshwari Shettar (2019) "Digital Banking An Indian Perspective" Journal of Economics and Finance, Vol. 10, (3) PP. 01-05

⁴Karjaluo, H 2002, Electronic Banking in Finland: Consumer Beliefs, Attitudes, Intentions, and Behaviors. Ph.D thesis, University of Jyväskylä, pp.195

The digital revolution in banking has drastically changed how banks function and service their customers. It will also continue to evolve and become more individualized over time, as previously mentioned. Traditional banking procedures are quickly becoming obsolete. They take a long time to complete and require a lot of labour. It takes a long time to complete a process. This demonstrates the importance of digital transformation in accelerating and simplifying tasks. Not to mention the impact that covid-19 has had on the issue. While lockdowns are enforced and our health protection is degrading, people have embraced online banking and prefer to do every single financial operation at the tip of their fingers⁵.

In fact, the future generation will be early Internet adopters and will be a part of a digital society that already exists. As a result, banks must begin their digital transformation today in order to serve them in the future. People need banks just as much as banks need people. Year every year, private banks introduce new value-added services, therefore every bank must embrace digital transformation to stay competitive. All of these elements point to a strong future for India's banking sector. Banks that go through this process should expect lower expenses and more streamlined processes. This connection also makes it easier for customers to have a more pleasant and engaging experience. To keep up with this fast changing online environment, your staff must be digitally unskilled.

Digital Payment Process in Rural India's

By integrating more than half a million volunteers, also known as banking correspondents, job seekers in various rural programmes have achieved a new goal. By delivering excellent training based on cashless transactions, the new goal is to enroll shops and people in the e-economy. However, every village business is being offered an incentive for achieving any kind of payment over a digital

platform, but this is a daunting undertaking for BCs across India. Furthermore, it has been estimated that around 2.5 million people in India's rural areas have signed up for cashless transactions, and around 55,000 merchants have switched to a digital payment network (Purmal, Alam 2013)⁶. However, these strategic shifts became apparent once India's government implemented demonetization on November 8th. The National Payment Corporation of India has simplified the two payment methods, UPI and USSD. Furthermore, villagers are far more at ease with fingerprints than with other security systems. It would, however, help to increase enrolment rates.

The Paytm Method in Rural India

The largest issue for India's government and nationalized banks was to provide affordable and accessible services to the country's rural population. There are around 640,868 villages in India, with over 800 million people living in rural areas. Basic infrastructure, such as transportation, education, and internet access, is lacking in these areas. Paytm, India's largest digital payments provider, has taken advantage of demonetization and expanded its services into rural India. Paytm offered merchants the ability to use their gateway and app to send money to farmers' bank accounts when they sold their produce as part of a pilot. Paytm has also worked with a number of agricultural businesses to integrate their payment systems with their own platform. Payment options can also be changed based on the borrower's income pattern, and range from quarterly to daily payments⁷.

1. **Digital illiteracy:** Rural people are less familiar with the digital world and computers/Smartphones. They don't even have a fundamental understanding of how to use a Smartphone or a computer.
2. **Vulnerable system and mistrust:** It is a common misconception that if money is parked at a bank, it might be cheated or withheld,

⁵ Ramachandran, R 2012, 'Indian Banking: Visualizing the next stage', *Journal of Banking and Finance*, Vol. 32, No.3, pp. 38-40.

⁶ Purmal, K., Alam, M. K., & Zam Zam, N. M. (2013). Cephalometric norms of Malaysian adult Indian. *Journal of Internal Medicine*, 20(2), 192-196

⁷ Rangaswamy, N., & Arora, P. (2016). The mobile internet in the wild and every day: Digital leisure in the slums of urban India. *International Journal of Cultural Studies*, 19(6), 611-626.

making people even more apprehensive of digital transactions. Furthermore, the frauds that occur aggravate the situation.

3. Selective to non-acceptance of digital payments: In rural locations, where there are few entities to conduct transactions, non-acceptance by any of these few entities may quickly result in non-digital payment method, notwithstanding a readiness to pay.

4. Limited number of transactions: A large number of transactions with the same retailer may cause a person to gravitate toward payment convenience.

5. Inadequate infrastructure: Smartphone adoption, internet access, electricity, and banking services are all lacking. Even India's largest nationalized banks are struggling to deliver basic banking services to the rural people. The Jan Dhan Yojana increased financial inclusion, yet most of the accounts opened under the scheme are dormant, with little or no activity.

6. Rural economy: Because most of the demands of rural people are met through cash transactions, introducing the concept of digital payments is a difficult issue. Because the rural economy is generally informal or unstructured, cash serves better than digital transactions.

7. Poor economy: India's rural population remains impoverished, with per capita income far below the national average. The rural populace is unable to afford even the most basic essentials as a result of this.

The Advantages of Digital Banking Transformation:

1. Trustworthiness: Nowadays, trustworthiness is earned online; customers choose their banks based on their perceptions of the institution. The way a financial institution displays itself online has an impact on their perception. Banks will be able to develop confidence in the eyes of the public if they are able to execute some decent web marketing. There are many ways to develop a relationship with a customer, but one strategy in particular has yielded excellent results.

2. Getting new clients is less expensive and easier. Consumers require banks just as much as

banks require customers. As a result, financial institutions can no longer take a passive approach to attracting financial services customers. The good news is that there is a less expensive and simpler way to attract these customers to your business. The Internet provides excellent channels for reaching out to these potential customers directly through their devices. This makes it easier to influence them, which increases the likelihood that they will come to you. It's also known as Content Marketing, and it's the new buzzword. It increases interaction and builds confidence among prospects and customers.

3. Personalized Offering: As a result of digital transformation, financial institutions can better understand what their customers want. They may tailor their financial services and offers to meet the needs of their customers rather than relying on guesswork. Banks may now increase client connection with customized services thanks to new creative technical breakthroughs.

4. Facilitates Innovation and Adaptability: Digital Transformation enables financial institutions to respond to technological and market developments and grow their operations with incremental success. Only through upgrading an institution be able to meet the needs of the next generation of clients. The rise of shopping portals, social media platforms, and integrated mobile apps has given banks new avenues to reach out to their clients. Banking institutions must embrace the digital world by undergoing a digital transformation. A fascinating statistic: Millennials are more inclined to watch a three-minute YouTube video than read a lengthy brochure. As a result, videos are becoming increasingly popular because they are both succinct and engaging. Along with videos, firms have begun to use a variety of other kinds of digital marketing. Here are some digital marketing trends to consider as part of your Digital Transformation strategy.

Significance of Study

In recent years, the banking business has seen numerous changes. Banking services are required at all times and in all places. The demand for these services is growing by the day, necessitating a shift to more efficient and convenient offerings. As a result, there has been a push for the use of electronic banking

technologies, which lowers the cost of providing banking services, keeps clients, boosts profitability, and allows banks to compete in the market. As a result, digital Transformation of banking sector in Rural Areas regarded important.

Statement of the Problem

Banking has offered customers more control over their banking habits. In this competitive market, developing a deep understanding between staff and customers is critical. It's crucial to understand how bank staff and customers feel about the transition from traditional to digital banking. Whether they'll be able to adapt to the new approach is a significant question mark. As a result, it's critical to comprehend their perspectives on the transition and assess the challenges that arise as a result of the modifications. In this context, it's important to make an attempt to study the on impact of digital transformation of banking sector in Rural Areas.

Research objectives

1. To study the socio-economic characteristics of the sample respondents selected from the study area

2. To investigate the influence of the digital revolution on rural banking.

Research Methodology

The study is indented to understand the impact of the digital banking on the rural customers. For which, 300 rural customers accessing digital banking were selected in the Bangalore district using convenient sampling technique. The primary data were collected through the Google forms.

Findings

Socio-economic characteristics

The rural customers of banks may have different attitude and behaviour from the urban customers. They also face some difficulties in their rural area due to availability of branches and services. 300 sample respondents have selected for the study and their four factors are considered for analysis i.e., age, number of family members (for considering their size of the family), annual income and their experience with their banks. The details are given below.

Table 1: Socio-Economic characteristics of the sample respondents

Characters	Mean	Std. Deviation	N
Age	31.23	10.918	300
Number of family members	4.49	1.258	300
Annual income	421516.67	713019.114	300
Experience	7.06	5.152	300

The Table 1 indicates that average of the sample respondents is 31.23, number of family members is 4.49, annual income is Rs.4, 21,516 and average experience with their banks is 7.06. Further, various digital services of the banks and

the preference of the customers are analyzed as below.

Table 2: Benefits of the digital banking

Digital banking services	Mean	Std. Deviation
Account-to-account payments	4.00	1.274

Personal Finance Management	3.64	0.899
Intuitive loan applications	3.41	0.851
Valuable loyalty benefits	3.02	1.124
Convenient account opening in minutes	2.80	1.460
Timely notifications	3.35	1.157
Personal digital card management	3.26	1.067
Straightforward digital insurance	3.09	1.276
Anytime banking	4.30	1.045
Trustworthy security	3.61	0.891

There are many digital services are introduced by the bankers every day. The development of technology and communication, the banking sector is adding more services to their customers. Based on the previous studies, top ten services of the digital banking are considered for the study. The Table 2 shows that availability of anytime banking service through the digital banking is priority given by the rural customers (4.30). The rural customers need more effort and time to utilize the physical banking services. The digital banking services help them to avail the banking services at any time. Digital payment method is also (4.00) preferred by the rural customers most. The payment system is made easy through the digital banking. Thirdly, the personal financial management is made simple and effective through the digital banking (3.64). The digital banking also helps to apply for loan through e-form. It is also preferred by the rural customers (3.41). Other features of the digital banking follow the ranking.

The impact of digital banking on rural customers

The digital banking is preferred by the customers in the modern era. The technology development improves the services in different folds. The usage of the digital banking services are ranking in the above table. The mean of the services of the digital banking shows the customers prefer all the services (The means are more than 2.5). In order to find the impact of the digital banking in the rural customers, the influence of the nature of the customers on the digital banking services is measured with the help of the regression analysis. There are so many reasons to influence on their preference and behaviour. The educational level, awareness about the digital banking, talent and skill required, gender, etc., are some of the factors could influence on the preferring digital banking services. But in this study, only these four (Age, family size, annual income and experience) factors are considered. The overall score from the 10 statements are computed and summed up for measuring the preference of the digital banking services. The result is given below.

Table 3: Descriptive Statistics

Variable	N	Mean	Std. Deviation
Digital banking	300	34.4733	5.54543

The Table 3 depicts that out of the 10 statements mentioning various digital services of banks are calculated from 5 point Likert scale. A

respondent can score a maximum of 50 (5X10) and minimum of 10 (1 X 10). But the average score is calculated at 34.4733. It is more than 25

(Median). Hence, it is concluded that overall preference of the customers towards the digital banking services is good. The result of the regression analysis is summarized below.

Table 4: Model summary

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate
1	0.369	0.137	0.125	5.18784

The R value is 0.369 and R square is 0.137. The adjusted R square value is 0.137. It is understood from the value that the dependent variable digital banking services is explained in its variance by the independent variables only at

13.7%. It shows that the influence of other factors is more on the preference over the digital banking services. The overall model is tested with the help of ANOVA as below.

Table 5: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1255.256	4	313.814	11.660	0.000
	Residual	7939.530	295	26.914		
	Total	9194.787	299			
a. Dependent Variable: Digital banking						
b. Predictors: (Constant), Experience, Number of family members, age, Annual income						

The influence of the constant and other predictors on the digital banking services is found significant from the ANOVA test. The F

value (11.550) for the degree of freedom 4 is significant at 1% level ($p < 0.000 < 0.01$).

Table 6: Regression coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	30.622	1.449		21.130	0.000	27.770	33.474
	Age	-0.066	0.028	-0.129	-2.339	0.020	-0.121	-0.010
	Number of family members	0.839	0.244	0.190	3.446	0.001	0.360	1.318
	Annual income	0.000001	0.000	0.153	2.704	0.007	0.000	0.000
	Experience	0.230	0.059	0.214	3.910	0.000	0.114	0.347

a. Dependent Variable: Digital banking services

The regression coefficient values from the Table 6 indicate that the role of constant is more than the predictors. The Age is negatively influencing (-0.066) on the preference of the digital banking services. It shows that the young customers prefer most than the old aged customers. Number of members in the family, annual income of the customers and experience have positive influence on the preference of the digital banking services. The calculated t values are for the age (-2.339), number of family members (3.446), annual income (2.704) and experience (3.910) are found significant. The probability values are less than 0.05. Hence, it is concluded that the impact of the digital banking services on the rural customers is significant.

Conclusion

Banks have recently placed a greater emphasis on information technology in order to improve customer service. Customers have done their banking related work through various forms of digital, saving time and money, even in the tough scenario of lockdown. During the lockout, digital banking has grown in popularity. However, the banking sector has several obstacles, such as a lack of networking facilities, poverty, economic backwardness, and the country's enormous population. Moving from traditional banking to a digital world is only one aspect of digital transformation. It's a significant shift in how banks and other financial institutions learn about client engagement and how to please them. Every industry and corporation has its own take on digital transformation. In general, integration of digital technology into all aspects of business. Hence, it is concluded that an overall preference of the customers towards the digital banking services is good. As the digitization of banking industry evolves, it would be ideal to construct acceptable measures in common throughout the entire financial system, and which are applied openly to the market.

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