



Digital Financial Services –Consumer Behavioural Shifts In The Indian Banking Sector

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ABSTRACT

Emerging technology is hastening the digital revolution in India's banking business, which is leading to a shift from traditional to convenience banking. Throughout the globe, including in India, there have been five distinct industrial revolutions that have helped advance the digital transformation of different sectors. Promoting digital financial services in the banking sector for financial inclusion has also had significance in GDP growth and employment creation.

An Indian economic strategy to 2035, forecasts digital finance and is expected to boost the nation GDP to \$950 billion and create 21 million new jobs in India by 2025. By making safe and quick basic banking services available to everybody, digital financial services are aimed at bridging the digital gap between rural and urban India. Digital Banking financial solutions make services like insuring, investing, cash deposits, withdrawals, and money transfers easily accessible to the population.

Thanks to a robust digital financial network, these services are now accessible to everybody, regardless of visiting financial institutions. In terms of both the development and implementation of digital infrastructure, India is now the world leader. The key causes for rapid digitalization in Indian financial services are increasing percapita income, a large young workforce, and digital penetration. More dramatic change continues today and consumers want it to be part of using various digital procedures in banking activities. In this context, this study explores the need of digital financial services, the positive and negative impact of digitization of financial services in the banking sector, and consumer behavior shifting towards banking sector with the use of digital financial services.

KEYWORDS

Financial services-digitalization-financial inclusion-banking sector-consumer behavioral shifts

Introduction

Financial intermediaries have a crucial role in determining the efficiency of the new financial system through the variety as well as the quality of financial services they offer. An economic service that is provided and associated with the selling of money offered to consumers is known as financial services. The main sectors within the financial service industry are banking financial institutions and non-bank Financial Institutions. Technological developments are changing the way people access to financial services. Digital financial services are more efficient and typically cheaper than traditional financial services. In addition, the COVID-19 epidemic has highlighted the importance of digital financial services due to the necessity of social distancing. Many households and businesses were able to quickly use online payment options due to social distance maintained in the time of COVID-19.

Another important step for digital services in the banking sector happened on November 8, 2016, the government of India unexpectedly announced the demonetization of major notes from circulation and constraining the use of cash. The effectiveness of demonetization did lead to a spike in the use of digital payments. Pay plays a tremendous part in bank transactions immediately following the policy announcement. The share of digital financial services in India extended to 46% in worldwide digital payments.

Objectives of the study

1. To know the Recent Changes in Financial services in India.
2. To analyze the behavioral shifts accelerated by digital convenience in the banking sector.
3. To understand the positive and negative impact of digital financial services on the Indian economy.

Research Methodology

The data used to compile this study came from secondary sources such as existing literature on related subjects, news, research papers, articles, reports, etc. that were subsequently reviewed and assessed.

Why digital financial services

Today, in all market centers including rural India people use QR scanners to purchase goods and services without money purses and currency notes. Since 2011, several government initiatives have focused on laying a digital foundation for improvements in financial inclusion. The first major step was the launch of Aadhaar, the biometric digital ID system, in 2010. Because it simplified and shortened the "know your customer" (KYC) process, this revolutionized the way people can access bank accounts.

The slogan of 'Digital India' has penetrated solely among the Indian masses. The number of internet users in the country reached 90 crores. The Government of India's enthusiasm and push to achieve a cashless economy, especially after the demonetization drive in 2016 has proved to be a catalyst for the fast transformation of the cash economy to the digital one. Govt. of India, has also contributed immensely to creating the awareness, adoption, and growth of digital financial services in the country.

Digital financial services in India have gained significant momentum for several reasons. Digital financial services offer convenience, speed, and efficiency in conducting transactions. This is particularly beneficial for urban populations with busy lifestyles and for businesses that require quick and reliable payment solutions.

The key reasons are discussed as under:

Demonetization: Demonetization refers to the process by which a government declares that a certain currency unit is no longer legal tender to Promote a Cashless economy and Encourage the use of digital payment methods.

User-Friendly Interface: UPI offers a simple and user-friendly interface that allows individuals to make payments and transfers using just their smartphones.

Interoperability: This means that the clients can pay or receive money between various banks and wallets seamlessly, eliminating the need for multiple payment apps.

Wide Acceptance: It was accepted by a vast network of merchants, online retailers, utility companies, and service providers across India.

Government Support: The GoI has initiated and developed various interfaces like the National Payments Corporation of India (NPCI) and UPI to support the digital financial revolution. Initiatives like "Digital India" and "Jan Dhan Yojana" have helped in its adoption by promoting digital payments and financial inclusion.

24/7 Availability: Digital transactions can be conducted 24/7, including weekends and holidays. This availability makes it convenient for users to make payments and transfers whenever they need to, without being restricted by banking hours.

Low Transaction Costs: Many digital services are either free or come with very minimal transaction costs, making it an economical choice for users as against other platforms like credit cards, which often charge hefty transaction charges.

Financial Inclusion: UPI has played a significant role in bringing non-banked citizens to banks. It has facilitated the citizens who were without bank accounts to open digital bank accounts and transact digitally

It Increases financial inclusion and boosters for extending banking and financial services to the underserved and unbanked population, particularly in rural areas. This includes access to savings accounts, credit, insurance, and investment products.

Infrastructure supporting digital financial services in India

Digital payments include those financial transactions wherein no physical cash is involved and the transactions use the technology for the transfer of money from one bank account to the other. Various types and methods of digital financial modes are being used in our country. for trade and commerce. These include ATM Cards, Micro ATMs, Bank Prepaid Cards Aadhaar Enabled Payment Systems (AEPS), Internet Banking, Mobile Banking, PoS Terminals, Unified Payments Interface (UPI), Mobile Wallets, Unstructured Supplementary Service Data (USSD), etc.

The usage of digital technology has revolutionized the payment methods and thus the functioning of the financial sector in India which has been transformed into an efficient, inclusive, and effective tool for the benefit of the consumers.

Overview of India Information and Communication Technology and Banking Sector Indicators

Indicator	Volume
Population	1.43 billion
Mobile phone subscribers	1.15 billion
Internet subscribers	825 million
Mobile money subscribers	500 million
Number of Mobile phone operators	4(Reliance Jio, Bharti Airtel, Vodafone Idea (Vi), Bharat Sanchar Nigam Limited (BSNL))
Number of banks	12 public sector banks, 21 private sector banks, and 46 foreign banks operating in the country.
Number of Bank Accounts	1.5 Billion

Source: Data from Ministry of Finance-2023, Telecom Regulatory Authority of India (TRAI)-2023.

These numbers reflect a rapidly growing digital economy in India, driven by increased access to mobile and internet services, supportive government policies, and the innovative efforts of both traditional financial institutions and fin-tech companies.

Digital Financial Transactions in India

Several reasons, including government encouragement, widespread availability of cell phones and the internet, and skyrocketing e-commerce, have contributed to the rapid expansion of digital financial transaction networks in India in recent years. An important factor is the widespread use of digital financial services enabled by smart phones, such as the Bharat Interface for Money (BHIM) app and the Unified Payments Interface (UPI), which permit instantaneous transfers between financial institutions.

These are the key growth digital transactions that have helped to build robust exponential financial services.

Digital Payment Transactions in India from 2017-23

Sl.no	Year	Digital Transactions - Current (Crore)	BHIM Transactions - Current (Crore)	Debit Card - Current (Crore)
1.	2017-18	2,070.95	91.39	334.34
2.	2018-19	3134.31	535.16	441.76
3.	2019-20	4571.78	1251.75	512.38
4.	2020-21	5554.12	2232.95	411.47
5.	2021-22	8637.87	4560.79	414.75
6.	2022-23	12,644.99	8,324.05	380.2

Source: RBI, PIB, NPCI, DigiDhan Dashboard

Digital Financial Transformation from 2007-2023

The government of India made a plan to provide a strong technological infrastructure as a fundamental source of financial inclusion. The journey of digital foundations in financial services in India is depicted as under:

S. No.	Period	Initiations
1	2007-2009	<ul style="list-style-type: none"> ➤ Started Smartphone Adoptions ➤ Mobile Banking Launched ➤ Aadhar Bio-Metric ID
2	2011-2014	<ul style="list-style-type: none"> ➤ 4G Net Work Released ➤ Entry of Payment Fintech ➤ Entry of Payment Fintech Lending Startups ➤ Entry of Msme Fintech ➤ Pradhan Mandtri Jandhan Yojana (PMJY)
3	2015-2018	<ul style="list-style-type: none"> ➤ Cheapest ever Data Plans launched driving internet penetration ➤ Launch of UPI Payments ➤ Shift to Digital Payments due to Demonetization ➤ Open Banking Regulations
4	2019-2023	<ul style="list-style-type: none"> ➤ Sale in UPI and Digital Credit (Pre-Covid) ➤ Initial Disruption and rapid rebound in Credit and E-Commerce during Covid ➤ Small Ticket Credit, BNPL for E-Commerce and UPI Scale and Become Mainstream ➤ Digital Lending Guidelines

Behavioral shifts accelerated by digital convenience in the banking sector

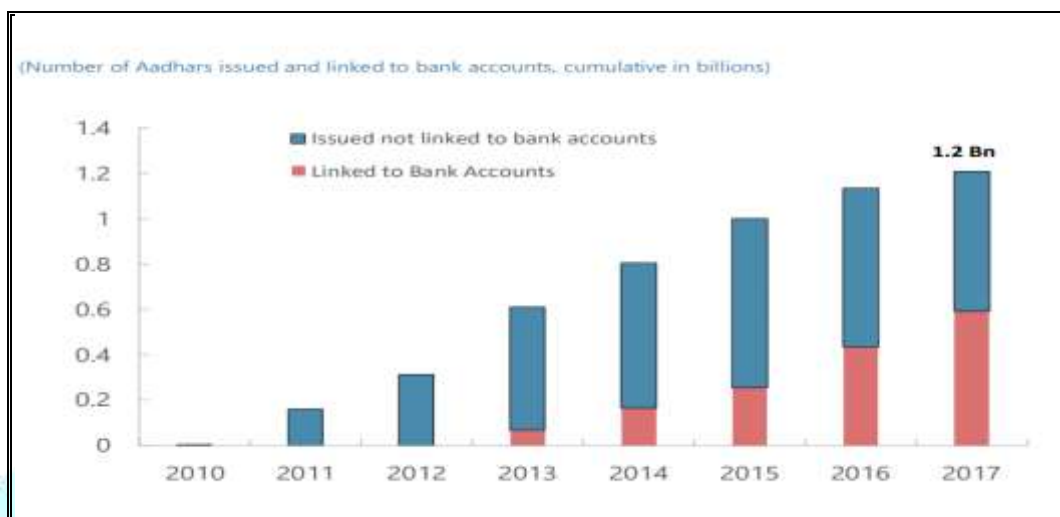
A massive financial development initiative has been launched by then NDA Government known as the Pradhan Mantri Jan Dhan Yojana (JDY) in August 2014. All of India's unbanked households has given a chance to open zero balance accounts and made easy access to saving accounts via Debit Cards and Mobile Banking, which was the program's stated goal. The program has grown rapidly since its launch, with 384 million active accounts as of 2019. In its first year, 166 million accounts were opened. Public sector banks are the default for 80% of new accounts, with 50% of those accounts being created in less-populated rural regions.

As part of its JAM initiative (JDY bank accounts, Aadhaar ID, and Mobile payments), the Indian government aimed to streamline financial transactions by connecting citizens' JDY bank accounts, Aadhaar numbers, and mobile phone numbers. This would help reduce financial barriers and expand people's access to credit.

Digital financial services have significantly influenced customer behavior in the Indian banking sector. Here are some key areas of change supported by government reports:

- **RBI Annual Report 2021-22** highlights the surge in digital payments, particularly UPI transactions, which saw a growth of 121% in volume and 72% in value during FY 2021-22. The total number of UPI transactions crossed 45 billion, indicating a strong shift towards digital payments.

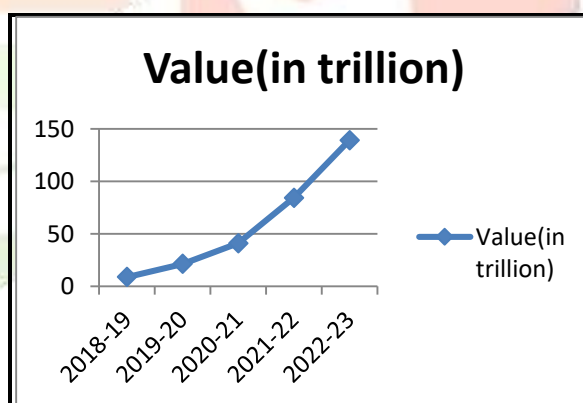
Aadhar Digital ID enrollment



Source: Unique Identification Authority of India

UPI growth trends

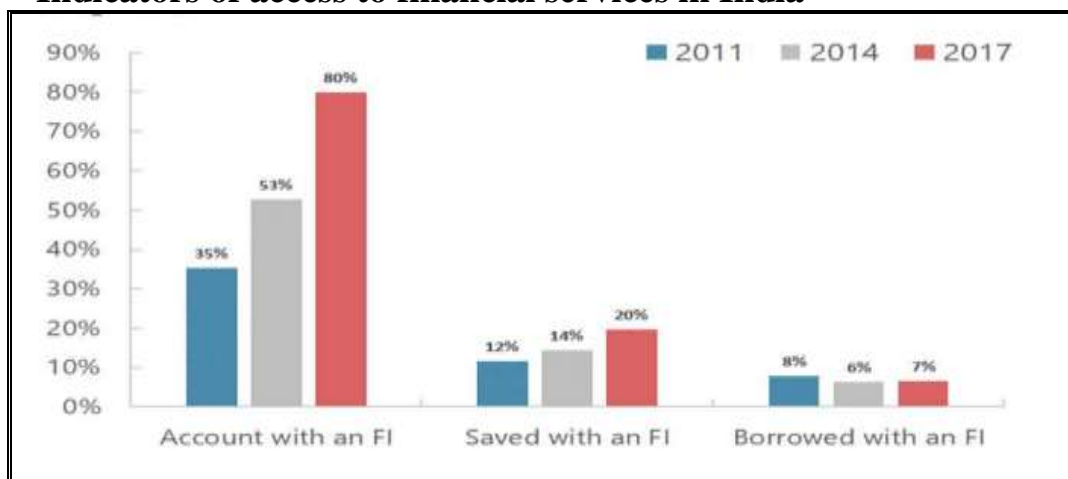
year	Value(in trillion)
2018-19	8.8
2019-20	21.3
2020-21	41
2021-22	84.2
2022-23	139.2



Source: National Payments Corporation of India

- Monthly data from the **National Payments Corporation of India (NPCI)** shows a consistent increase in UPI transactions, reflecting consumer preference for digital payments over cash. UPI payments have grown from Rs. 8.8 trillion in 2018-19 to Rs 139.2 trillion in 2022-23.
- As per the **PMJDY progress report**, over 480 million bank accounts have been opened under the scheme as of December 2023, with a significant portion of these linked to digital payment platforms. This has facilitated greater access to banking services for previously unbanked populations. It also increases a substantial increase in the number of people using digital banking services, driven by the government's financial inclusion efforts.

Indicators of access to financial services in India



Source: IMF Financial Access Survey

*FI: Financial institutions

- The Government's **Digital India** initiative has played a crucial role in promoting Internet and Mobile Banking. This initiative shows increased internet penetration and digital literacy, contributing to the growth of Digital Banking.
- **MeitY E-Governance Reports** highlight the implementation of digital KYC across various financial institutions, reducing the need for physical documentation and facilitating quicker on boarding of customers.
- **RBI's Cyber Security Vision Framework** highlights the implementation of advanced security measures like Bio-Metric Authentication and Real-Time Fraud detection systems. The adoption of these measures has been accelerated by increasing digital transactions, aiming to enhance consumer trust in digital banking.
- **Pradhan Mantri Mudra Yojana (PMMY)** and **Stand-Up India** schemes promote digital lending for entrepreneurs. It results from the customer changing their attitude towards convenient digital financial services. As technology evolves, digital lending will likely become an even more integral part of the Indian banking sector. Digital lending by banks in India is transforming the financial landscape, making credit more accessible, efficient, and customer-friendly. **SBI's YONO App** offers instant personal loans, pre-approved loans, and a wide range of digital lending services

Positive Impact of Digital Financial Services in India

The positive economic impact of Digital Financial Services in most of the studies was well documented both theoretically and empirically. Several studies have found that greater financial inclusion boosts up growth and reduces poverty and inequality. The Indian banking sector has experienced a transformative shift in recent years with the advent of digital financial services. Some positive impacts of Digital Financial Services are discussed below.

1. Improvement in financial inclusion driven by exponential access to digital infrastructure is possible.
2. Digital financial services are helping to address a constant efforts that affects women, in particular, such as mobility and time constraints by allowing them to access Mobile Banking Accounts from home.
3. The extent of Digital Payments in India including payment enablers (access to Mobile, Internet, and Aadhar) payments infrastructure including Debit and Credit Cards, number of Bank Branches, ATMs, etc
4. The expansion of digital payments helped stabilize the income of the people in rural India.
5. Digital payments have also helped to boosts up sales of the goods and services produced in Indian firms in the internal sector.
6. Digital payments have helped to improve the ability to target Government support. According to a survey conducted by the National Payment Corporation of India, about 90% of low-income households are eligible for direct benefit transfers by the Government in post-lockdown.

Negative Impact of Digital Financial Services in India

Challenges Encountered in Digital Payments are multi-faceted due to various reasons. Some of the challenges are discussed below.

- ❖ In India, digital literacy is poor, especially in rural areas of the country.
- ❖ Most of the rural areas do not have the necessary infrastructure, such as reliable energy, good connectivity, and high-quality internet.
- ❖ Because of the majority of interactions take place in English, which is the major linguistic barrier
- ❖ Despite advancements, a significant segment of the population lacks access to smartphones, internet connectivity, or the necessary digital literacy for using these systems.
- ❖ Concerns about potential tax consequences, online fraud, cybercrime, and the need to keep detailed records of financial transactions discourage the use of digital payment methods.
- ❖ Insufficient regulations on digital payment disputes etc.
- ❖ Even though the digital payment systems has increased, cash still dominates many transactions, posing a challenge for complete cashless adoption.
- ❖ Consumer protection issues –dispute resolution and redress mechanisms

Conclusion

Thanks to recent technological advancements, a major legislative push, and a massive endowment in the digital infrastructure sector, fundamental financial services are now accessible to more people at lower costs and an unprecedented level. Many individuals have still unmet needs, even though these services have grown in popularity among particular demographics (e.g., the young, the middle class, and the affluent). For digital financial services to flourish in India, people need to alter their habits and perspectives, and service providers need to have a thorough grasp of people's demands.

Even though there are some challenges, the acceleration of digital convenience in the Indian banking sector has led to significant behavioral shifts, marked by increased reliance on digital transactions, enhanced financial inclusion, and a preference for personalized and secure reshaping the landscape of banking in India.

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