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DIGITALISED BANKING SERVICES: RISK PROFILE ANALYSIS

Shweta Bhatnagar, Sr. Asst. Professor, BSSS & Research Scholar AISECT Univ. Bhopal, Dr. Deepti Maheshwari, Dean, Faculty of Commerce, AISECT University & Dr. Sangeeta Jauhari, Head, Department of Management, AISECT University

Introduction

'Digital is Default' will not be an exaggeration as technology has taken over the world of banking completely. Electronification or Digitalization of financial sector on the whole has lead to rapid technological innovations over last few decades. For instance the most basic function of commercial banks has been transformed from deferred net settlements (DNS) to real time gross settlements (RTGS) ensuring immediate finality with reduced settlement risk. Consequent to the financial innovations and integration of global and financial markets, volume and value of interbank settlements have grown significantly. (Hobijn, 2007)

In India, it's been over two decades that the use of technology in banking has gained grounds. From conventional, lethargic manual banking we have moved on to technology supported innovative banking and became an 'unstoppable trend' since then. Banking industry has undergone a radical shift in its way routine business, from account opening to payment settlements, from trade finance and loans to customer management. Digitalization is the game changer and will create a new era of strategic partnerships and level playing fields. (Banking Technology Conference, 2017) There will newer concepts and innovations that will add up to the vocabulary of digital banking. (Fig 1.1)

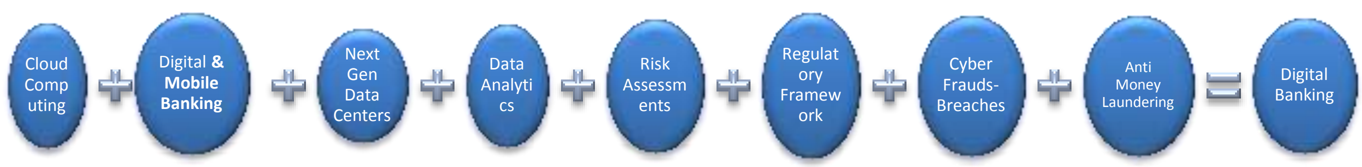

Fig 1.1

Technology driven innovations, enables banks to provide more flexible banking options with shorter turn out time and extension of banking to 24x7 virtual banking thereby scaling up the business volumes and values further. But what is crucial is to make digital priority, ensure innovation, gain competence and secure customer experience. (Banking Technology, 2017). High performance trajectory is set in for the banks by enabling them to adjust flexibly to the level of economic and financial volatility.

Objective of the Paper

The paper aims to;

- Identify the challenges and opportunities of digital banking.
- Draw risk profile of technology usage by the banks

Digital Trends and Transformations in Banking

Optimizing customer satisfaction and business are the twin objectives supported by information and technology. Trends in technology are likely to affect four main functional dimensions of banks (Fig 1.2)

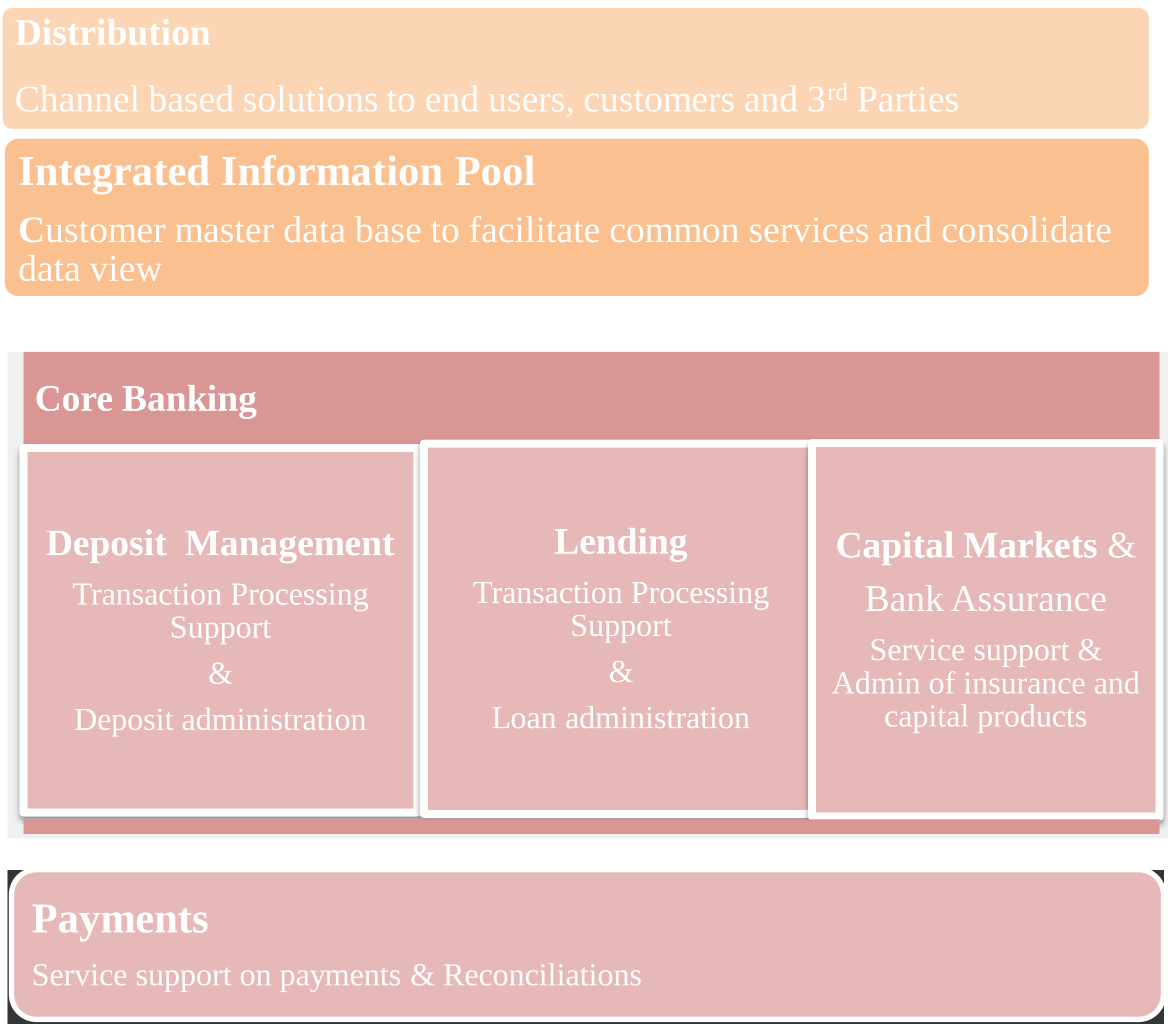

Fig 1.2 *The Principal Areas of Bank's Operations Affected by Technology Trends*
Source: Accenture; Banking Technology Vision White Paper

Untill 2004, Technology in over 40 per cent of the bank branches in the country were obsolete. According to Merwin Fernandes, vice-president and global head (sales and marketing banking business unit), Infosys Technologies, technology investments by banks were just a shade of the western banks (Bureau, 2004). However looking at the broader picture for a decade and a half (2000 to 2015) global internet penetration has risen from 6.5% to 43% with India registering an exponential growth – from less than one percent to 30%. According to survey conducted by KPMG, 2014 technology stands as second most important driver of transformation of banks after changing customer preferences for the coming five years. (Fig 1.3)

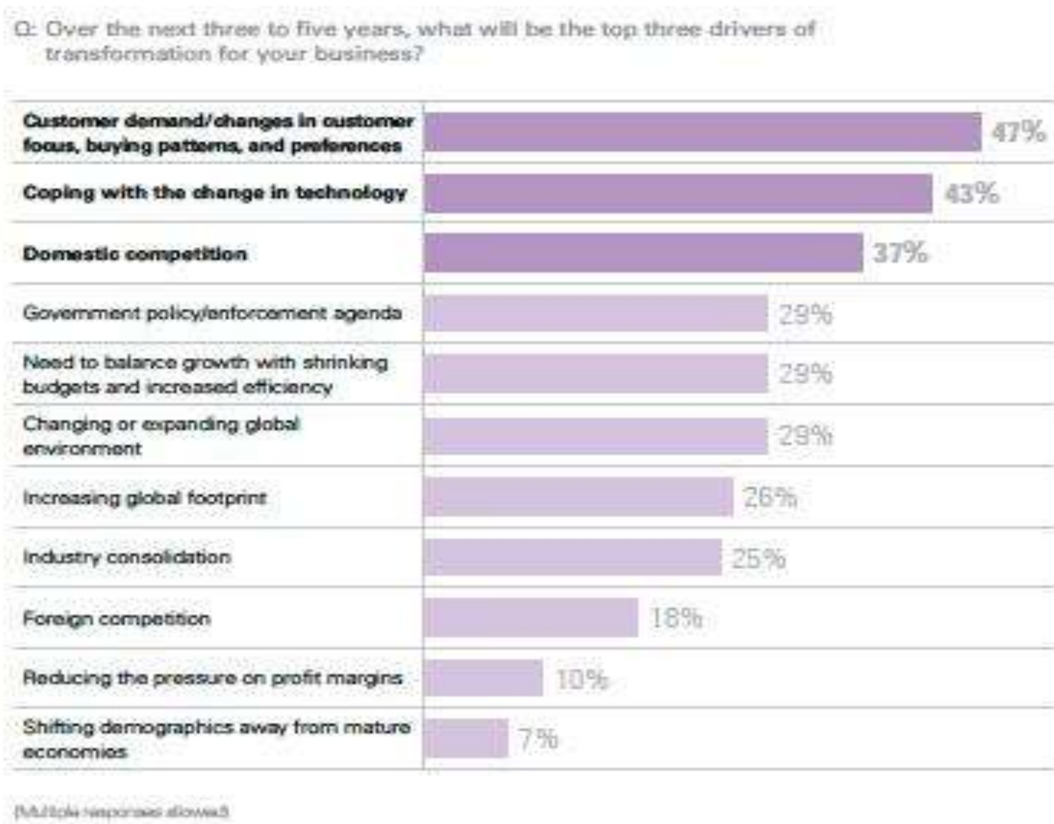

Figure 1.3 Key Drivers of Transformation for Banks,
Source: 2014 Banking Industry Outlook Survey KPMG in India's Analysis based on Industry Discussion

Implementing digital strategy has become the top priority of banks up to 2020 in the wake of 'Digital india'. There has been a noticeable improvement in the technology environment with the public sector banks also. A relatively old RBI statistics is well indicative of this thrust where public sector bank branches, 97.8 percent are fully computerized at end – March 2010 whereas all branches of SBI are fully computerized.

Category	2007	2008	2009	2010
Fully computerized Branches (%)	85.6	93.7	95.0	97.8

Table 1: Computerization in Public Sector Banks Source: RBI, Annual Report 2009-10

The following trends could be identified due to deployment of technology- intensive banking solution

- Mobile Banking
- Electronic Modes of Payments
- Financial Inclusion
- Moving from information to insight
- CRM Initiatives
- IT for Internal Effectiveness and Management
- Managing IT Risk
- IT for Innovation and Enhancement of Core Banking values

Digital Innovations in Banking Services (Fig 1.3)

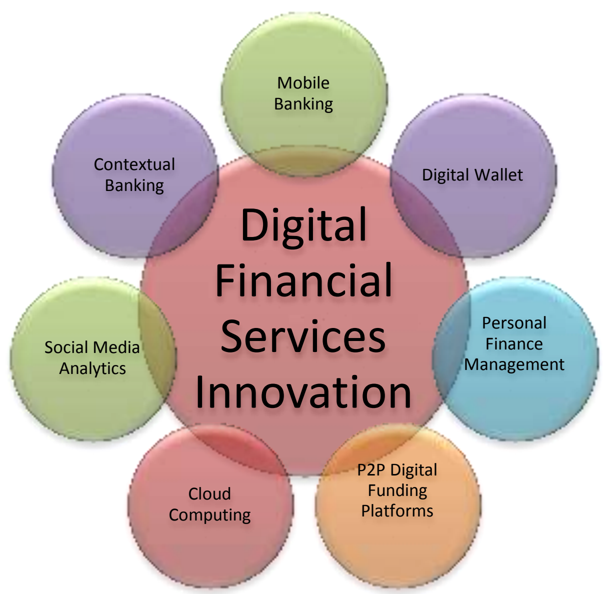

Figure 1.3 Financial Services Innovations

The Augmented Outcomes

As per Tata Consultancy Services Survey 2015 banks and financial institutions have spent USD 142 million on an averageon digital initiatives in FY 14. Significance of high investments is to;

- Manage Volatility of the business through continuous upgradation
- Address experience gap
- Pursue new sources of revenue
- Improve operational efficiency

Digital Challenges and Emerging Opportunities

Digitalization of banking and financial services is a ‘must’ but it’s not completely a glory. It has its own challenges. However, we could see that in each challenge lies the possibility and opportunity to take digitalization to the next level. Major challenges and opportunities are grouped under four heads (Fig1.4)

Figure 1.4 Digital Challenges & Opportunities

Risk Profile Analysis of Digital Banking

Banks all over the world are experiencing a paradigm shift where they are moving towards all digital virtual banking. ‘It can be rather named as seamless customer experience’. While executing a transaction the customer has a wide choice of selecting the channel and even switching them during the course of transaction. In Spite of all the benefits derived from digitalized banking it is important to objectively analyse the risks associated with this huge dependence on technology. Following parameters forms the risk domain of digitalization;

1. **Digital Transformation Programmes:**
   During the course of implementation of digital programmes there is a disruption in the usual business. Technical snags or glitches may create a negative impact and become a cause of concern and sometime panic for the customers. This defeats the purpose of seamless offerings. Transition requires a careful tracking customer on boarding as there exists a risk of non conversion of some of customer data into the new programme.

2. **Data Security:**
   Major risk which banks are exposed to while using technology is cyber crime.the crimes are not of monetary gain nature but of hacking valuable information related to individuals and institutions. Cases of cyber crime have been witnessed in US and UK. In India close to 12000 cases of cyber fraud were reported during April- December 2015, related to credit card and net banking. As per the cyber crime data maintained by National Crime Records Bureau (NCRB), a total of 5,693 and 9,622 cyber crime cases (which include cases reported under the IT Act, 2000 and related sections of Indian Penal Code (IPC) and Special and Local Laws (SLL) involving computer as medium/target) were reported during 2013 and 2014, respectively. (PTI, 2016) The cases included identity theft, transmission in electronic form, phishing, cyber forgery and cyber fraud as stated by IT Minister Ravi Shanker Prasad.

3. **Cyber Crisis:**
   Apart from cyber theft and equal threat is imposed by cyber crash down which can't be eliminated from the digital system. The incidents of cyber attacks have shown a rising trend in recent times. This includes website intrusions and defacements, virus/malicious code, denial of Service attacks, etc. Nearly 1.5 million cyber attacks occur every year, which translates to over 4,000 attacks every day, 170 every hour, or nearly three every minute.1 While few attacks succeed, the high probability of cyber incidents dictates that every organization needs to be prepared to respond effectively. It is difficult to predict the exact nature, location and impact of such incidences. The main concern of the customer is loss of data and privacy which in turn can make the customer averse to a brand. (Deloitte)

4. **Internet banking Innovations:**
   Internet application based innovative products and services are necessary but add to the risk profile as well. Open and complex nature of the internet makes assessment and resolution to be incorporated at initial levels. Negligence in identifying security concerns and implementation of risk control measure will fall very heavily on the banks in terms of non compliance to the regulatory norms.

5. **Lack of awareness and Skill Gap:**
   Due to wide scope of technical functionalities medium to high skill gap exist amongst the banks globally (Rennicke, 2014). Due to lack of adequate technical training for employees banks run the risk of digital mishandlings and errors. The problem of up grading the skills affects further innovations and retards the growth as well.

Conclusion:

After elaborate exploration and in depth analysis of the objectives of the study it can be concluded that opportunities and challenges digitalisation go hand in hand. Digitalisation has come a long way and is irreversible. As it is rightly said by David Hodgkinson, Principal Advisor, KPMG in UK, 'Banks must adapt or die'. It is essential for the banks to set their digital priorities, convert them into consolidated digital plans and implement them strategically through orienting customers to use secured digital channels.

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