

ISBN: 978-81-965238-5-5



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இந்து நாடார் சங்கங்களால் 1966-ல் தொடங்கப்பட்ட கல்லூரி
(Affiliated to Manonmaniam Sundaranar University, Tirunelveli)
THOOTHUKUDI - 628 003



27th & 28th
July, 2023

Two-Day International Conference on DIGITAL ECONOMY OF INDIA - A PATHWAY TO DEVELOPMENT [DEIAPD - 2023] - [FULL PROCEEDINGS]



Organized by

POST GRADUATE AND RESEARCH DEPARTMENT OF ECONOMICS
KAMARAJ COLLEGE, THOOTHUKUDI - 628 003
TAMIL NADU.

Sponsored by

INDIAN COUNCIL OF SOCIAL SCIENCE RESEARCH (ICSSR)
NEW DELHI

Chief Editor

Dr. V. Thangamayan

Book Title:

**TWO-DAY INTERNATIONAL CONFERENCE ON
DIGITAL ECONOMY OF INDIA - A PATHWAY TO DEVELOPMENT
(DEIAPD - 2023) - (FULL PROCEEDINGS)**

Chief Editor: Dr.V.Thangamayan

Edition: I

ISBN: 978-81-965238-5-5

Month & Year: August, 2023

Copyright ©: SK Research Group of Companies - SKRGC Publication

Book Size: A4

Date: 27th & 28th July 2023

Published by

SK Research Group of Companies

SKRGC Publication

142, Periyar Nagar, Madakulam,

Madurai - 625 003, Tamil Nadu, India.

Mobile: +91 9790120237

Email I'd: skrgc.publisher@gmail.com

<https://skrgcpublication.org/isbn/>

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A STUDY ON DIGITALIZATION AND ITS ROLE IN THE INDIAN BANKING SECTOR

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ABSTRACT:

Digitalization has become a buzzword today. Digitalization has become critical for the Indian banking sector, which has a tremendous impact on advancing financial inclusion and is primarily focused on delivering superior services to clients with the possibility of gaining more shortly. However, every sector has its version of digitalization that differently impacts the industries. This paper aims to identify the role of digitalization in the Indian banking sector. As a result of digitalization, Customer loyalty increases and eliminates human error. Customers now have access to banks at all times due to online banking. Managing large sums of money has also become more accessible. Digitalization has helped customers by making cashless transactions more convenient. Customers no longer need to keep cash on hand and can conduct transactions anytime and from any location. Digitalization has resulted in significant cost savings and has assisted in generating income with the help of several methods. The smart phone revolution in India has paved way for an unprecedented growth of Mobile Commerce and Mobile Banking in India. The Mobile banking services are playing a significant role in the interactions between consumers and financial service providers. The unique feature of Mobile banking is that it enables Anywhere Anytime Banking and is the most convenient and easy way to stay connected to the bank. Banks are permitted to offer Mobile banking services (through SMS, USSD or Mobile banking application) after obtaining necessary permission from the Department of Payment & Settlement Systems, Reserve Bank of India. Mobile banking services are made available to bank customers irrespective of the mobile network. This study provides insights into digital technology and the ways banks adopt it in India.

KEYWORDS: Digitalization, information technology, Indian banking sector, customer services.

INTRODUCTION:

With the advent of Mobile banking, banks have also embraced Mobile Applications popularly called as Apps. The last two years has witnessed an increase in the number of customers using the mobile for banking transactions. India stands fourth worldwide, ahead of all G7 countries and the cumulative value of the banking transactions by these customers have shot up over 11-folds during the period as per the BCG consulting group's report. This report has also forecasted that by end of December 2015, \$350 billion in banking transactions and payments could flow through mobile phones, compared with about \$235 billion of total debit and credit-card transactions today. Another KPM Greport has predicted that more than 25 per cent of the world's population will use Mobile banking in the next four years. Mobile banking is clearly replacing all other channels as the main portal between the bank and the consumer. Increasing smart phone adoption and initiatives such as media promotions and awareness programmes for Mobile banking has led to this uptrend.

The current mobile adoption figures are good news for the economy as well as the banks. Experts believe improved applications by banks have helped mobile banking gain acceptance among users. According to KPMG report on mobile banking 2015, mobile banking is already the largest channel for banking transactions but the adoption is mostly high only in some urban users and metro cities but very low and untapped in rest of the country. The low penetration rate of mobile banking in rest of the country is in indication that customers are still hesitating to accept and adopt mobile banking services.

MOBILE BANKING:

In the simplest form, mobile banking services enable users to receive information on their account balances via SMS. Some new software were updated in mobile phones in order to make transfer funds between accounts, stock trading, and confirmation of direct payments through the mobile phone's micro browser. Mobile financial services in these smart phones have been introduced by quite a few European banks and were made successful. Bank are one of the key players that want to preserve their position in the financial market as the provider of banking services and central payment. Banks helps customer's to go on with transactions through mobile phone with the help of technologies like WAP, SMS, etc. this made banks to merge internet and telephone and leverage it to cut costs and at the same time provide convenient to its customers.

Mobile devices such as mobile phones, PDAs, wireless tablets and any devices connected to mobile telecommunication network make it possible for payments to be made. The positive reception of mobile payment will make possible new and unforeseen ways of convenience and commerce. Mobile payments can become a complement to cash, cheques, credit cards and debit cards. Account based payment instruments such as electronic funds transfer, internet banking payments, direct debits and electronic bill payments can be paid using this service and it also includes payment of bills especially utilities and insurances premiums.

MODES OF ACCESSING M-BANKING:

M-banking service is provided to the customers through the following modes.

A) SMS Banking

This is the simplest mode through which the M-banking service is offered to the customers based on SMS (short message service) communication. It is easy to use and does not require the smart phone or any data plan activated on the mobile phone of customers for its functioning. In this mode the transaction are carried out by sending a simple SMS to the bank. However, this mode of banking suffers from certain limitations such as inability to transact in real time, security issues and lack of good experience of the customers.

B) WAP Based Banking

This is the second mode of accessing the m-banking service and takes care of some of the limitation of SMS banking. WAP stands for wireless application protocol which is a special type of protocol used to transact on mobile devices. This mode of banking enables the customers to access the services of the banks in a real time environment through proper data communication. WAP based m-banking service provides more secured and user friendly services to the customers in a real time communication mode.

C) USSD Mode

This is the third mode through which m-banking service be used and it helps to access the m-banking service using unstructured supplementary service data (USSD) code. In USSD, m-banking transactions are carried out using interactive menu which is displayed on the mobile phone screen without using internet. This mode provides a secured way of accessing the m-banking service on the basic mobile phones using USSD encryption.

D) Mobile Web Banking

This is another way of accessing the m-banking service and used by mobile devices with advanced browsing capabilities such as displaying complete website content. This mode of m-banking usage provides improved. Customer experience with an ability to transact online as in the case of computers. Mobile web banking operates in a similarity with internet banking service there by providing the customers with internet banking banking like experience on the mobile phone.

E) Application on Mobile Phone

This is the most advanced mode advanced mode through which the m-banking service of different bank could be accessed. In this mode, a special type of application of the bank installed on the mobile phone of the user. This application provides advanced m-banking M-banking features to the users and enables them to utilize different types of facilities provided

by m-banking features to the users and enables bank specific application on mobile phone have best in class user interface and security features which ultimately helps the customers to get the enhanced user experience in m-banking.

REVIEW OF LITERATURE:

Karimzadeh and Alam indicated in their study that legal and security, sociocultural and management and banking issues are expected as challenges for the development of E-banking but that there is less awareness regarding new technologies and unsuitable software which are ranked respectively as the highest and lowest obstacles in India.

Aladwani conducted research about the drivers and challenges of online banking; the results of the study show that to bank managers are in support of a lack of internet specialists and changes in Internal technology being the principle issues relevant to online banking development whereas IT managers mentioned time and budget constraints and also immature Internet Technology. The study also indicates that according to general and IT managers" technical obstacles are the most important challenge for the development of E-banking. Customers however mentioned internet security, online banking regulations and customers" privacy as the most important future challenges of E-banking in Kuwait.

Vaithianathan in his study commented that due to the high Internet penetration among developed countries" populations, these countries are able to deploy electronic commerce to their advantages, whereas developing countries are still trailing far behind. Apart from this other issues such as lack of technology infrastructure, lack of awareness, lack of skilled human resources and social factors are cited as hurdles that prevent pervasive Ecommerce adoption in developing countries.

STATEMENT OF THE PROBLEM:

Advances in mobile technology are allowing for delivery of financial products and service more conveniently and effectively traditional banks. In the current competitive word banks have to struggle their then might to offer the best of the customer satisfaction through various innovative strategies in order to survive in industry.

Objectives of the study:

The objective of the study is to understand the various forms of digitization introduced in the Indian Banking system and how it has impacted the customers.

A structured questionnaire was formulated and circulated amongst the employees working in public and private institutions in Bangalore through online methods of data collection and data was collected on the same. The sample size was 100 for the paper. The collected data was classified, tabulated and grouped under various heads for the purpose of interpretation. For analysis of data, Pie charts were used.

DATA ANALYSIS:

The responses were collected from a sample of 100 respondents. The population targeted was working professionals in public and private institutions.

1. Respondents: Public and Private Employees:

Out of the 100 responses collected, 55% were public and 45% were private employees.

2. Online Transaction of respondents:

95 percent of the respondents using their mobile phone, and 5 per cent of the respondents don't use their mobile phone for online transactions.

3. Mobile banking services of respondents:

42.5 per cent of the respondents used m-banking for transfer money, 27.5 per cent for pay bills, 22.5 per cent to buy goods and services and 7.5 per cent to know the account balance.

4. Satisfaction of using internet banking services of the respondents:

42.5 per cent of the respondents are highly satisfied, 32.5 per cent are satisfied, 12.5 per cent is neutral, 10 per cent are dissatisfied, 2.5 per cent are highly dissatisfied.

NEED FOR DIGITALIZATION IN THE INDIAN BANKING SECTOR:

In the late 1980s, the Indian banking sector recognized the need for computerization to improve customer service, bookkeeping, and record-keeping. The Reserve Bank of India then constituted a committee to explore computerization in banks in 1988, which Dr C. Rangarajan chaired. With the Indian economy reforming from 1991 to 92, the computerization process accelerated. The increasing entry of private and international banks into the banking sector was one of the key drivers of this development. Several commercial banks began to shift toward digital service delivery to stay competitive and relevant in the race. The advent of Cheque processing based on MICR, the electronic transfer of funds, the interconnection of bank branches, and the adoption of ATMs have resulted in the convenience of banking time for commercial banks in India. Due to a lack of cash during the demonetization period, people were driven to use mobile banking or digital payment, which looked to be a better alternative for them. The Indian government is now encouraging digital payments extensively. United Payments Interface and Bharat Interface for Money were launched by the National Payments Corporation of India, which are crucial steps in the payment mechanism. UPI is a mobile platform that allows customers to send money across accounts at different banks using a virtual address instead of their bank.

CHALLENGES AND ISSUES IN E-BANKING SECURITY RISK:

Security Risk- It is very big challenge for E-banking, very big challenge to make consumers and marketers to opt it because of security issues. We have heard of various internet frauds, fishing acts, password hacks etc. According to the IMAI report (2006), 43% of internet users are not using internet banking in India because of security concerns. So, it's a big challenge for increase in online banking use.

Privacy Risk- Peoples fear very much from the fact that there is fear of identity theft and disclosing private information in online or E-banking (wiki leaks, panama paper leaks etc.). They feel bank may invade their privacy by utilizing their information for marketing and other secondary purposes without consent of consumers. People feel very much irritated when they receive calls for credit cards or insurance etc.

Trust Factor- Trust is the biggest thing when you have to do anything, especially when you do a financial transaction you have to have full faith on the medium you are using, the site you are using the connection etc. There arise several questions in mind of users: Did transaction go through? Did I push the transfer button once or twice? Is my Password and ID is secured? Trust is very important factor which influence the customers".

Customer Awareness- Villages are backbone of India and when we talk about villages, peoples are still not aware of banks, so in India there is a long way for E-banking. So we first have to educate peoples first about the banks system and then slowly have to educate them.

Holes- Any defect in hardware, software or privacy policy, use of-banking in open networks or unsecure networks allows hackers to have unauthorized access. The network tolls that can be affected by holes are routers, server software, operating system, firewalls and clients.

Money Laundering Risk- Since internet banking can be done remotely, banks may find it difficult to apply traditional methods for preventing and detecting undesirable criminal activities like money laundering. Applications of money laundering rules may not be adequate for some forms of E payments.

Cyber Squatting- It is the act of registering a famous domain name and then selling it for a fortune. Cyber squatters register providers" domains so as to attract their users and benefit from it. This is an issue that has not been covered in the IT Act, 2000.

Languages and Literacy Barriers- Unfamiliar language and illiteracy are barriers in using E-banking service are mostly in English language. It is very difficult in country like India with 1.252 Billion populations only about 79% of literate peoples & most of them in regional language it is also very big barrier.

Fraud by Human Resource of the Bank- When you have the access to a plenty of information and the information is in hands of a person we can trust anyone. There are several peoples who use their own gain and may cause loss to both customer as well as bank.

CONCLUSION:

Online, internet, virtual, phone banking and ATMs are the products or services or application of E-banking. It is considered as a remarkable development in the banking sector. E-banking helps banks and government to keep a record of transactions, helps banks to reduce their paperwork, it is very less time consuming and accurate. It helps customers to not to wait in queues for transactions, make it easy for them to keep records of their transactions and spending. So, E-banking is the future of banking and we as peoples, banks and government have to apply it with grace, we must welcome it with open mind.

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Published by
SK Research Group of Companies 
The International Journal & Book - SKRGC Publication SKRGC Publication
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Madurai 625003, Tamil Nadu, India
skrgc.publisher@gmail.com / +91 9790120237
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ISBN 978-81-965238-5-5



9 788196 523855