



## A STUDY ON COMPARISON OF TRADITIONAL AND MODERN BANKING AND ITS IMPACT ON BANKING INDUSTRY IN INDIA.

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### Abstract :

*The banking sector is the backbone of any non traditional economy. It is the important pillars of the financial sector, which plays a main role in the functioning of an economy. It is vital for economic development of a country that its financing requirements of trade, industry and agriculture are met with higher degree of commitment and responsibility. However, the development of a country is integrally linked with the development of banking. In Traditional times, banks were simply be left with payment and settlement business. So transformation from traditional to modern banking relates to intermediate stage when the industry is passing from the earlier or before social banking era to the newly conceived technology based competitive banking and customer centric. Modern banking is the term used for E- banking or Electronic Banking which suggest that banking no longer follows the old type of traditional way but the new modern techno way. However, E banking consist of - Internet banking and banking through other electronic modes such as M-banking, ATM, other apps like GPay, Paytm etc. Banking industries is one the significant service sectors in the Indian economy with modern innovations which push the banking service industry to enhance effective customer services. These modern banking services are paving the ways to interface the customers with their banks. Purpose: The purpose of the study is to look at the functioning of the banks in modern way. There is shift in the pattern from traditional way to modern way in the functioning of banks and this has led to transformations in banking industry. This study focus on comparing the traditional and modern phase of banking. Methodology Type of research is Secondary data. Contribution: Paper is focusing on measuring the overall Customer satisfactions from banking services as now banks are becoming modern by providing e-banking and other types of modern services. Satisfaction level of customers has been enhanced due to modern banking services. And paper also focuses on overall impact on banking industry as banking era is transforming from traditional to modern services.*

**Key words:** *Traditional Banking, E-Banking, Customer Satisfaction, Technology.*

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### **Introduction :**

Technological advancements have profoundly changes the world, affecting how people conduct their personal and professional lives. The banking industry has spent significant resources in delivering ICT to customers during the last few decades. The banking business is undergoing tremendous technological advances, which are having a number of consequences for client satisfaction and loyalty. It has changed every business in the globe, including banking, by allowing for faster and

more cost effective product and service delivery. Creating a trusted brand is expensive, as it necessitates a large advertising budget as well as the procurement of sophisticated equipment (as security and privacy are key to gaining customer approval). Retail banking only becomes lucrative if a large critical mass is reached, as e-banks have discovered. As a result, several e-banks are focusing on delivering a specialised service to the wealthy. To communicate with banking customers, an e-banking transaction requires an interface. All electronic transactions are carried out through interfaces. Electronic banking delivery channels are electronic devices that engage with consumers and communicate with other financial systems.

With more non-bank competitors joining the market, the financial services industry is still booming. As a result, banks have begun to reconsider their methods in order to remain relevant to today's consumers. Traditional banks, with their personalised service, remain important to customers; however, with the growing availability of online banking services, it's prudent for banks to focus not only on staying digitally current - by developing both internal and external digital services - but also on attracting new customers. One of the main and major determinants of banking services is the customer satisfaction, which can be enhanced by using modern banking services. However, Indian banks should try to satisfy all types of customers by providing great services. Still there is a need to know the level of satisfaction of modern banking customers. Over the last few decades India has experienced different degree of responsive policies in the banking sector. Indian banking sector is an important constituent of the Indian financial system and plays important role through promoting business in urban as well as in rural areas in recent years. The banking sector reforms in India were started in order to follow-up with the measure of the economic liberalization and financial sector reforms in the country. The banking sector being the life line of the economy was treated with utmost importance in the financial sector reforms. The aim of reforms was to make the Indian banking industry to be more competitive, efficient, versatile and productive. The reforms in the banking industry started in early 1990s have been continuing till now and the Indian banking sector is changing towards modern banking system. This paper is mainly focusing on to private sector and public sector banks in India.

### **Concept of E-Banking :**

E-Banking indicated towards the method of utilizing services of banking online upon the computer network. It is a method with the help of which users use all services of banks through the online network. It is defined as internet banking, online banking & virtual banking as per Kaur (2017). Consumers are quickly able to run their accounts & carry out various economic business dealing just by utilizing services which exists of distinct kinds for example



Telebanking, smart cards, cash machine, Electronic cheques & plastic money. Consumers are adequate to protect their bank account & take care of them from deception utilizing e-banking service. They can easily oversee their account continuously. It also decreases the assignment & function cost of banking organizations. E-banking has also decreases the possibility of human mistake, there is no feasibility of mistake happen in a fully automated system (Gupta, 2002).

### **Concept of Traditional Banking :**

Traditional banking means that the user or customer has to go the bank branch for the primary banking requirement or services such as withdrawal or deposit of cash, verifying statement of accounts, fund transfer etc (Golden 2016). It is called as the original bank which was the method of past in the economy or method of banking business going since ages. They were also known as the original commercial mediator to provide bank accounts. The Indian Banking Sector arises up to the world of technology in beginning of 1990's. In India public sector bank has been influenced by the banking sector who occupied above 80% base of total asset (Chanda 2012).

### **Statement of Problems and Need for study :**

Banks in India are at various stages of the web-enabled banking cycle. In the beginning, not all the bank were having a web site also, customer used to communicate with it through an e-mail address; communication is limited to a small number of branches and offices only through e-mail. As, many scheduled commercial banks in India are still in the first stage of Internet banking operations. With gradually increasing adoption of Information Technology, mostly all the banks have started putting up a web-site that provides general information on the banks, about its location, services available for example loan and deposits products, application forms for downloading and e-mail option for enquiries and feedback. It is mainly a marketing tool. For example, 'A' Bank provides information on its web-site about its services. Customers are required to fill in applications from the website i.e. online form and later they can receive loans or other products requested for at their local branch. In some banks still the web sites still does not allow online transactions for their customers. This paper suggests that the main factor is to improve digital banking acceptance in India and becoming the requirement of integrated cultural and organizational changes at the bank's level to gain the customers' trust and confidence in digital banking.

### **Literature Review :**

1. As per the recent changing social trends and technological advancements such as heightened increased preferences for convenience and customer pro activity have caused intense restructuring of the almost entire financial services sector. Collectively, these internal and external forces have caused banks to re-evaluate their marketing strategies and have led to growth in the adoption of self-service banking technologies. However, although banks have focused their attention on improving their online banking service quality, many of them are still lagging behind their customers ever increasing demands and expectations as discussed by S. Ross (2000).



2. Banks in India need to understand that making huge investments in technology is not enough unless most bank customers adopt it for banking transactions. As argued by Shaikh and Karjaluo (2016) in their paper that digital banking is much more ahead than an innovative banking channel and a convincing marketing strategy study supports the view that traditional banking for customer satisfaction is as significant as online service quality as discussed by Semeijin et al. (2005)
3. The earlier studies conducted in the area of digital banking have mainly explored the attitude of customers and variables that matter to customers while using digital banking channels or the factors that impacted the intention of customers to use the modern banking channels (Montazemi and Qahri-Saremi 2015; Szopiński 2016; Alalwan et al. 2017; He et al. 2019). Hardly in India this study has given attention to study the impact of the bank's initiatives within the branch to encourage customers to adopt modern banking channels.

### **Research Methodology :**

Secondary data is collected from the records like research papers, books, journals, reports, magazines, periodicals and the relevant websites such as Reports published on RBI Website as well as Accenture website.

### **Objectives of Study :**

- To study the level of customer satisfaction towards E-banking services
- To study impact of transformation on banking industry
- To study customer perception towards the traditional banking and modern banking

### **These five principles are recommended by Accenture:**

1. Determine your strategy
2. Infuse a human touch
3. Understand the shift in expectations
4. Prioritize technology investment
5. Recognize your customer base

As per the past years several by Accenture, it has been observed that banks have been moving their customers out of their branches to digital channels. The reason for this is actual as moving process-driven interactions to digital channels and keeping more complex matters in-branch meant they saved on costs while protecting personal relationships with customers. Although many people entertained this shift to digital, but then also certain group of customer still preferred to visit their branch for even simple and day-to-day transactions.

### **Finding of study :**

Customer satisfaction was observed as an important factor or variable while demonstrating the use of online banking channels at the bank branch. Regular communication resulted to enduring relationship of the bank with its customers (Howcroft et al. 2002; Waite and Harrison 2002)



Most of the researchers believe that the effective communication at branch level to guide customers for using technology to fulfill their banking needs can surely bring a positive change in customers' perception, specifically in semi-urban and rural areas where customers hardly have any hands-on experience in computers and Internet.

As per some research findings also highlight that the introduction of new banking channels requires bankers to gain expertise not only in banking technology but also in communication skills to educate customers to use innovative banking channels, as customers' trust in online banking is positively related to effective communication among bank and its customers as discussed by Mukherjee et al. (2003).

### **Limitations of the Study and Future Research :**

This study significantly contributes to the literature and also with few limitations which can be addressed in future study or research. The current study concentrates on customers perceptions regarding the impact of traditional efforts on their adoption of digital banking channels. Further, insights from this study could be used to frame a model for the impact of traditional banking initiatives on customers' adoption of digital banking that can be empirically tested. Therefore, the future research can examine the impact of COVID-19 on digital banking acceptance in India as the current pandemic situation has encouraged customers to access remote banking services. It has been observed nowadays most of the customers are opting for digital payment as they feel it safer and faster compare to visiting branch. Secondly, future researchers may continue the same study or they can study by comparing the private sector and public sector banks. The study may also be done as a worldwide study to bring the potential of the E-banking services across different countries.

### **Conclusion :**

To conclude that E-Banking has greater impact on the entire economy and in the banking sector as well. As financial services made available to the rural people is recognized as an vital part of poverty reduction strategies. Technological innovation will result in fundamental changes to banking service providers and their relationships with customers. In case of productivity, economic growth, efficiency, giving optimum service to the customers, electronic banking has huge contribution as a whole and also it leads to greater customer satisfaction.

Therefore, to conclude that by focusing on establishing a direct relationship between customers' trust in the bank and its e-banking services. The study also focuses on the significance of customer satisfaction and perception to identify the customer segments and target specifically high profile clients in a bank branch to increase return on investment.

### **Managerial Implications :**

Migration of customers to digital banking channels in India indicates that the development of branch transformation strategy with the focus on customer-centric approach. Therefore, the branch transformation is seen to face various challenges, especially with respect to public sector banks in India as compared to private sector bank. These issues raises the urgent need for focusing on improving traditional practices of banks to convince the customers to transform to digital banking channels.




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