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Issues and Challenges of Banking Technology of Rural Banks in India

Dr.G. Sankaranarayanan,
Head of Commerce
Alpha Arts and Science College

Ms.M.Umadevi &
Dr.K.Sivaperumal
Assistant Professor
Department of Commerce
Vel Tech Ranga Sanku Arts College
Avadi, Chennai-62.

ABSTRACT

Banking now is considered to be the one of the fastest growing sector of Indian economy. Banking technology are methods which are adopted by banks by combining the old methods with new technological advancements. India has emerged as one the strongest economy in the recent time and it is because of the base of the economy getting more and more strong which is primarily the banking sector which is related to lending and borrowing of funds to various classes of people who are living in the society. The increasing demand of money is a good sign for a country like India but it raises problems and concerns over the safety of the transactions happening and the increasing demand of the money. Due to loophole in the banking technology there have been concerns from government, economists and people related to banking sector. As the time is changing banking sector felt a need to update themselves on technologies in order to survive and penetrate deeper in the market so that banking sector reaches and provide their benefits to all sections of the society irrespective of their income, job and other things. The following study has been done to analyze the modern trends in banking sector which are adopted by various public or private sector banks in order to overcome problems related to transactions, customer retention, customer satisfaction, engaging customers, security problems in payments.

Keywords - fastest, technological advancements, transactions,, loophole, modern trends

INTRODUCTION

Banking sector has grown and emerged really well after independence. Banking Regulation Act 1949, nationalization of banks in 1969 helped the banking sector to transform and grow over the years. Technology has always been a driven force for development of an industry. Information Technlogy in banking sector has impacted the working of banks in past few years and has changed functioning of banks from an offline platform to an online platform The way how an industry is looking forward towards a technology helps to determine the future of the sector. Banks in India have adapted modern banking technology in order to provide better customer service, easy access to customer data, to provide 24*7 service, better engagement of customers. Though, this all has revolutionized the banking sector. Technology such as Artificial Intelligence, blockchain, smart ATMs, are still under the process of development which can educe human burden very much.

In the coming years banking sector will adapt technologies which will completely digitalize the work of banks and will make great impact on day to day working of the banking sector. Information Technology in banking sector has opened up new markets for banks to expand their products and services into capital market, retail banking, wealth management etc. It is known that the urban model of banking which is applied in rural banks is not suitable for the rural branches. There is a need to understand why the rural banks and customers are facing difficulty in using the banking technology and how they can tackle it.

Need for the study

The banking sector in India has opened up their business with various technologies in order to provide a customer based banking where the demand and expectations of customers are always on top priority of the banks. Recent trends in banking has made branch and paper based banking to ‘digitized’ and network based banking system which is popularly known as paperless banking or e-banking. The banks have understood the approach of modern customers and have learnt that they need to modernize their way of banking to meet various customer expectations of various groups of people.

Significance of the study

The study on issues and challenges regarding the banking technology is one of the rising concerns in today's world especially in country like India due to vast amount of data available, loopholes in transactions and many other things. The technology model adopted by banks in urban areas might not be feasible; as well the same model of technology usage can't be adapted in rural areas because of certain factors like lack of technical knowledge, lack of accessibility to economic resources, lack of information regarding the Information technology and other factors. These factors may contribute to the failure of the adoption of technology in rural areas. This study focuses on how banking technology faces various issues but the major area of focus is how the rural area is affected by lack of banking technology and the issues and challenges faced by the branches of rural banks.

Objectives of the study

- To study about the issues faced by people and banks in rural areas while using banking technology.
- To analyze about the evolution of technology and how it evolved and how it is going to evolved.

Definition

The term "banking technology" refers to the use of sophisticated information and communication technologies together with computer science to enable banks to offer better services to its customers in a secure, reliable, and affordable manner, and sustain competitive advantage over other bank. (Ravi, 2008)

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Research Methodology

The use of secondary data has been focused completely through various internet sources and by reviewing articles and going through various websites related to the topic. No primary data collection was made through questionnaire or any other sources. This paper is a conceptual paper and the issues have been tried to solve by providing suitable measures

Evolution of technology in banking

The banking sector has consistently developed over a period of time. It has developed according to the needs of customer always whether it is a private or public bank. Banks have focused continuously on customers need and demands. Since banks were nationalized they are focusing on modernizing their way of doing business. We all know how technology is changing everyday and how it is important for banks to adapt the banking technology in order to survive and have good customer base. Now customer can have all bank facilities in their phone with a simple internet connectivity which was not possible for everyone 15 years ago and not widely used by customers due to various problems. The banking technology has been a chain of development from ATM machines, debit cards, cheques to mobile banking, digital wallet, digital banks etc. Banks have focused on the better service always keeping in mind the resources and potential they have. Banks have realized the value of being updated with modern banking technology in order to survive, serve customer needs, to develop, to increase customer base, to reduce cost, to save time etc., Banking technology has transformed the way banks use to think 10 years before and how they think now. The banks have grown along with their customer service to make the customers to do the banking at their convenience.

Technology has transformed banking in such a way that banks have developed their working on online platform serving customers anywhere anytime. The customers have been benefitting since

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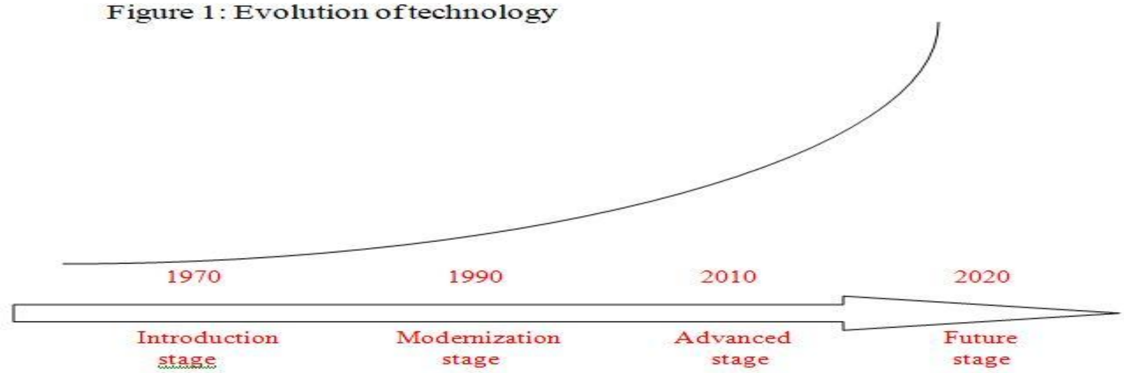
banking technology came into existence.. After studying the technological changes it was found that the evolution can be defined in 4 different stages which showed how technology evolved gradually to serve the banking customers in best possible way.

1. The introduction stage (1970)
2. The modernization stage (1990)
3. The advanced stage (2010)
4. The future stage (2020)

Figure 1: Evolution oftechnology



1. **The introduction stage (1970)** - After Independence the 'Five Year Plan' was launched by the government in order to develop the country. In 1969 the government felt that there is a need to nationalize the banks and bring them under the control and supervision of the government as these banks were considered to be the the profit generating banks. The banks were having good amount of deposits by public. The government felt that these banks are generating good amount of profit and the money held by the private banks can be used for various development projects and plans for the government. Along with it the banks also introduced Magnetic Ink Character Recognition (MICR) facility in cheque to its customers which was considered to be a great technological reform at that time
2. **The modernization stage (1990)** – This stage is considered the base of the banking system. This stage led to the opening of market for the foreign banks which came up with

new technologies and innovation which gradually started competition among the various banks of India. The HSBC bank came with first ATM in the country and along with that banks were connected globally with other banks through networking, the banks were connected to a common centralized server, fund transfer and other things were focused.

3. **The advanced stage (2010)** – This stage is considered very advanced for banks as they developed and came up with various technological advancements which created healthy competition in the market. Mobile banking, Europay MasterCard Visa (EMV) debit cards, Net banking, biometric enabled ATMs. This stage had transformed the way of banking for people. Conventional way of banking has changed to convenient banking. This era was basically backend by internet facility. The development of banks boomed during this period due to technological advancements.
4. **The future stage (2020) -** This stage is going to be the advanced stage of technological developments, in this we can see that banks will adopt the use of artificial intelligence to reduce their day to day repeated work which in turn can save their cost to recruit people for those jobs. The Artificial Intelligence will also handle the banking operations as they will be able to communicate directly with the customers and serve the banks need and can give real time solutions to customer problems. Also, cloud computing can be a huge revolution for banking sector as they there is a lot of risk associated with the data. To safeguard the data and protect customer interest the banks are spending huge amount. Blockchain is also expected to be very useful as it eliminates the middlemen in the transaction leading to a more secured and verifiable transaction between two parties which can be always secured and safe. The upcoming years will see an extensive use of mobile phones for all banking related work and the banks will find it east as smart watches, wireless Bluetooth connectivity etc. The big data analytics is also one of the fields where banks will invest wisely in order to trace the customer past expenditure, way of spending and way of investing etc things in order to provide the service which will best suit them according to their personal need.

It can be observed from the various stages of evolution that the banking technology today has seen rapid growth over the past few years in order to meet customer needs and demands.

Problems faced by banking sector in using technology

Due to changing market trends and customer preferences banks are adopting technologies but there are some problems which they face such as

1. Huge cost- when banks introduce a new technology there is a lot of money invested in bringing up that technology and also cost is incurred in Research and Development which is done before bringing the technology. Overall it seems to be a very costly thing in terms of finance and all if the technology fails there is huge loss for bank financially. Banks have to first identify whether the technology they are going to launch is feasible or not then only they should think about adopting.
2. Customer orientation – whenever a technology is launched it becomes the job of bank to make their customer aware of the technology and it becomes difficult for banks sometimes to orient them about the technology they have launched because people might not have so much technical expertise and they may not able to use the thing smoothly and effectively according to their need and convenience.
3. Changing the system functioning- when technology is brought up, banks need to update their system with the technology in order to serve the customers. Although it is time a taking process which can affect the banking business if it is not incorporated on time in all the systems of the bank and also in the centralized server of the bank, the bank might get delayed in meeting the customers need on time.
4. Server failure leads to delay- when the server of the bank fails then all the banking functions of the branch gets stopped. The major problem faced by banks these days are poor connection between the branches of banks along with the head branch of the bank.

Cyber attacks- The use of technology has made easy things for everyone but there is always someone who is trying to steal data online through various servers and manipulate it accordingly. Thus, cyber crimes have become a huge issue today for banks and customers who are using the banking technology for their purpose and benefits.

Problems faced by rural banks and customers using the banking technology

The problems faced by bank in urban areas and banks in rural areas are not always the same. Though they might share a common system of networking and technology but the issues can be completely different sometimes. Some of the problems in rural banks are as follows

1. Lack of customer interest in using technology- when technology is introduced in rural branches of any bank or in regional rural banks people have very little interest in knowing what it is all about, they still prefer conventional mode of banking and digitization of things is still not a major thing for them until they are uncomfortable with what they are getting.
2. Updated technology is not available- Generally, it is seen that any technology launched in urban area is launched very late in rural areas because of the process and time which is taken to update the system of the the rural banks. Thus, the customers of rural banks don't get same benefits when it comes to technology as it launched very late in the areas.
3. Lack of education – education about the various technologies should be told to the customers and how it will benefit them. Like banks are opening ATMs which will only give cash when fingerprint is recognized. Thus this prevents loss from card cloning in rural areas where there is chance that educated people might cheat the uneducated people
4. Lack of fast internet service- for doing every banking transaction online one needs good and proper internet connectivity. Because poor connectivity leads to failure of transactions, slow process, and other failures which might cause problems for people.
5. Banks don't have enough resources- There might be chances that all banks of rural areas don't have the same technology and people might have to face problem if they have

account in bank which have technology about which people don't know. Thus, customer might shift their account to other bank if it is not easy and convenient for them to use the banking technology.

Conclusion and suggestions

The banking sector in India has seen rapid growth over past few years due to technological advancements but there are issues and challenges which still need to be addressed by the banking sector in order to develop and provide banking services to Indian citizens. The banking technology needs to tackle by providing hands on experience on techniques, education on safety of e-banking, promotion of digital wallets, providing high speed internet facility. This all steps will surely lead to more growth in banking sector which will help the economy to grow further and which will help the country to move towards a cashless and digital economy.

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