

# Hybrid Banking: The Convergence of Physical with Digital Banking - An Evolving Transformation

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**Abstract:** *The banking system has been exponentially growing and a rapid transformation has set in thanks to the fast pace growth in technology. In this scenario Hybrid banking is the way forward especially as the aftershocks of the Covid 19 pandemic continue to reverberate across the economy, hybrid banking combines the best of both worlds that eventually leads to increased productivity, flexibility, efficiency, cost-effectiveness and last but not the least an enhanced bottom-line. Swift customer acquisition through quicker account setup, quicker approval of loans, a reduction in paperwork, early fraud detection, also mobile deposits are but some of the features that customers can use to enhance their banking tasks, simultaneously availing personalized relationships at brick and mortar physical banks. In the same vein the arrival of disruptive technologies is changing the competitive landscape of the banking system. Banks embrace new technologies to bring process improvements, cost optimization and to supply value-added services. While investment in technology is inevitable, banks got to prioritize the challenges of adopting new technologies. The present paper is an attempt to study Hybrid banking and its various features that have an impact on the Customer experience and the disruptive technologies that are fueling this exponential transformation.*

**Keywords:** Digital Banking, Hybrid Banking, Disruptive Technology, Phygital model

## 1. Introduction

The present era of banking is marked with digital revolution resulting in the rapid climb of technologies. The new generation of monetary technology startups is unbundling the banking model, providing smooth customer interface and facilitating banking services. Within the pursuit of sustainable growth and to deal with competition, banks are embracing new technology and redefine the ways of servicing customers. The technology transformation has made a gradual shift from brick and mortar system to technology-enabled services that require less human intervention. Since Indian Banking is within the midst of the Technology evolution, which isn't only advantageous but also creates disruptions the challenges faced by banking sector thanks to technological development has been witnessed from decades in developed and developing economies.

The innovations in banking business affect various verticals to call a couple of operations, functional domains, workforce, etc. within the look for differentiation and drive to digitize the industry's value chain, the character of banks' work is changing—along with the talents required to deliver those services. That's particularly true for front-office and knowledge technology (IT) personnel.

Modern customers, who choose a completely digital experience, now demand better services and more products. The Fintech behemoths have enabled both traditionalists and modern customers to get the best of both worlds, whereas banks enjoy superior customer satisfaction, cost savings and greater productivity.

It's nobody's guess that online banking is the way forward in the realm of the future of banking and banks have embraced and mastered the elementary functions of online banking for their commercial accounts. However, in the

same vein the merits of the time-tested approach to relationship-based banking with their brick-and-mortar branch cannot be put to a secondary role. The banks are in the process of utilizing the accessibility, flexibility and productivity of mobile and online banking and combining it with the personalization, management and additional services and expertise a branch can offer to combine the best of the old with the new and provide the customers with the best banking services and solutions.

## 2. Review of Literature

**Palaniand Yasodha P. (Apr2012)** The research paper focuses on customer's perceptions on mobile banking offered by Indian Overseas Bank and it also focuses on the varied drivers that drive mobile banking consumers.. The results of this study showed that gender, education and income of the consumers play a crucial role in usage of mobile banking. Most of the researches are focused on the acceptance of the mobile banking technology thanks to which not much research has been conducted on people.

**Tenkasi Taluk & Devasena, S Valli, (Jan2012)** Banking system is that the backbone of the economy and knowledge Technology (IT) successively has become the backbone of banking activities. Technology to start out with was a business enabler and now has become a business driver. The Banks cannot consider introducing a financial product without IT support. Be it customer service, transactions, remittances, audit, marketing, pricing or the other activity within the Banks, IT plays a crucial role to not complete the activity with high efficiency but also has the potential to innovate and meet the longer term requirements. The Banking Sector was early adopter of technology and therein way set an example to the opposite industries the necessity to choose automation for taking full advantage in operational efficiency.

**Dasgupta Siddhartha, Paul, Fuloria & Sanjay (2011)** The study was conducted to know the behavioural intention of mobile banking usage of Indian customers. Research methods just like the correlational analysis and a multiple correlation analysis were wiped out order to work out the extent of impact the antecedents have over the behavioural intentions of mobile banking usage. The results of the study showed that aside from the normal variables like Perceived Usefulness and Perceived simple Use, factors like Perceived Image, Perceived Value, Self Efficacy, Perceived Credibility and Tradition all significantly affects Behavioural Intentions towards mobile banking usage.

**Prerna Sharma Bamoriya (2011)** The study was conducted to spot certain issues concerning banks, mobile handsets and telecom operators, mobile handset operability, security/privacy, standardization of services, customization, Downloading & installing application software and Telecom services quality. For this purpose a descriptive design was adopted to empirically explore the chosen issues. Study suggested that from consumers 'perspective mobile handset operability security or privacy and standardization of services are the critical issues. The target of the research is to review the chosen issues in mobile banking form urban customers' perspective and to explore the perceived utility of mobile banking. The study is aimed to gauge perceptions and opinions of urban mobile banking users. Sample for the study comprised of fifty mobile banking users and 50 non-users in Vadodara city, India.

**Achana Sharma (2011)** This paper examines consumer adopting mobile banking as a replacement electronic payment service. It also focuses on the varied factors influencing the adoption of mobile banking in India. When it involves the research methodology utilized in the study, data collected has been grouped into two main categories – primary and secondary data. The secondary data are collected from the newspapers, journals, magazines, internet and also various other research papers. The research had a complete of 100 respondents participating within the data collection for understanding the utilization of Mobile banking. From the info collected it had been possible to form projections within the research.

### Objectives of the Study

1. To study the requisite and impact of hybrid Banking.
2. To study various disruptive technology in Banking.

### Hybrid Banking- The best of both the worlds

In Hybrid banking, there is unified integration of financial services into the digital solution to meet the demands of the customers and the socio-economic environment. In a hybrid banking, financial institutions combine the brick and mortar physical banking approach with virtual banking. This tactic leverages the Internet as a strategic tool to offer complex products at lower costs, without compromising on quality of services.

Furthermore, to survive cut-throat competition in the banking industry and to leverage the novel opportunities of online and mobile banking enabled by the Internet, banks have no choice but to innovate and adapt a hybrid, 'clicks and mortar' model.

The notion of a bank is no longer about simply payments and transactions but represents an ever expanding financial services sector like loans, insurance and healthcare et al. The banks of the nexGen will need to go beyond providing just financial products. They have to uphold, build and coordinate ecosystems with the support and integration with fintechs like LendingKart, MoneyTap etc and other specific non-banks. Through the building of an integrated (hybrid) banking model, banks have a substantial opportunity to go past 'pure-play banking' and into 'needs-based banking', in the process making the one-size-fits-all template obsolete.

Contemporary banks cannot afford to disregard their customers' changing preferences anymore. As they adjust to the ongoing pandemic scenario, banks have to pay attention to the value of face-to-face service. In-branch banking will remain a pivotal part for numerous people and will persist as an important vehicle for banks to attract new customers, to retain existing customers and to engage intensively with the customers. The bank branches shall have to graduate to experience centers like Samsung store, providing a place for customers to discover products and services, and to disentangle new complicated banking difficulties.

Customers want to have contact and access these sort of physical experience branches at the same time also being able to perform the banking functions and transactions digitally via the cellular phones, tabs or notebooks. In the realm of both the physical and digital the customers need to know that they will be offered an enhanced level of security, ease and confidence, specifically when it is about financial issues that can be complicated and extremely sensitive or both.

Most Financial service providers now comprehend they can no longer sit on any decision regarding digitization. Although the growth of remote capture, online account opening, and GenX consumer behavior have diminished the need for branches, the trend has only enlarged since the pandemic. As a consequence, the pace of branch consolidation has also hastened. The lockdowns initially during the pandemic forced the hand of even the banks given to slow adoption strategy to hasten the deployment of digital channels.

The banks use technology and digital to create Integrated Banking with a human touch. While the new features like video banking and the extensive adoption of digital paves the way of expansion, banks now will have to work towards the retention of customers and convert this expansion and growth to reflect in the bottom line. Banks have to move in the direction where banking transactions move into the lives of people and not the other way where customers have to visit the banks for transactions. Banking will have to evolve and become part of what people perform in their day to day life and there should be a bond between the customer and the bank that will result from a human touch which prerequisites to be embedded in digital.

The process of transforming bricks and mortar to the "click and mortar" model represents an innovative era in the Indian banking ecosystem. Hybrid banking facilitates long-term sustainability of financial establishments by providing a

multi-channel strategy that provides cover to all categories of consumers at the same time decreasing transaction costs. Obviously, banks are biggest stake holders in this evolving financial ecosystem, as a substantial proportion of traditional consumers are embracing new technologies and fresh consumers are asking for expansion and innovation of prevailing services through various internet enabled gadgets.

### Disruptive technologies – Drivers of the Evolution of the new banking Paradigm

The Institute for Development and Research in Banking Technology (formed by the Reserve Bank of India) has established that the digital economy sector in India is expected to “double its output as early as 2025.”

Digitization in India is expected to lead to “widespread economic growth and employment through incremental value addition across a variety of sectors including education, logistics, manufacturing, and healthcare,” the report noted. It added that during the past 10 years, India has seen many different technological disruptions that have been supported and enabled by advanced IT industry and “the demographic potential in the country.”

### Major Drivers of Banking Technology

#### Digitization of India

The initiative includes plans to attach rural areas with high-speed internet networks. India may be a home for quite 1 billion mobile users. As per the estimates of TRAI, India's telecom subscriber base, mobile, and landline combined, touched the 1.68 billion mark at the top of February 2020. The country's telecom market is that the second largest within the world after China regarding subscriber base. With the amount of mobiles within the country crossing one billion of which quite half are smartphones, banks are proactive to offer the simplest digital solutions to the purchasers for payments and other banking services from anywhere, anytime.

#### Digital Payment Methods

The Government of India has introduced various digital payment systems to convert India into a less cash society like banking cards, i.e., Rupay, Visa, Master, USSD, BHIM, Aadhaar Enabled payment system, UPI. The big variety of cards available – including credit, debit and prepaid – offers enormous flexibility, as well. RuPay, Visa, MasterCard are a number of the samples of card payment systems. Payment cards give people the facility to get items in stores, on the web, through mail-order catalogs and over the phone. They save both customers and merchants' time and money and thus enable them for simple transaction.

USSD based mobile banking. It's envisioned to supply financial deepening and inclusion of under banked society within the mainstream banking services.

In the Bhim, One can make instant bank to bank payments and Pay and collect money employing a just Mobile number or Virtual Payment Address (VPA).

Unified Payments Interface (UPI) may be a system that powers multiple bank accounts into one mobile application (of any participating bank), merging several banking

features, seamless fund routing & merchant payments into one hood.

### Cloud Computing

Cloud computing is that the delivery of computing services—servers, storage, databases, networking, software, analytics and more—over the web (“the cloud”). Cloud computing can provide broad capabilities that banks need on a versatile basis to assist them do far more than cut infrastructure costs. It helps banks to rework their business processes and enhance their ability to grow in new sectors or regions without the time and price burdens involved establishing a physical presence. Another application of this technology is to make new markets and services to differentiate from competition and improve the ways customers' access and use the bank's products and services. Now the question arises what's driving the banks and other financial institutions to adopt the cloud is especially the industry pressure to consolidate IT costs.

**Table:** Public Cloud service market value in India

The public cloud services market value in India from 2015 to 2020 (in a million U.S. dollars)	
2015	957
2016	1353
2017	1936
2018	2626
2019	3392
2020	4282

Source: Nasscom Report

### Block Chain Technology

The blockchain may be a global network of computers that jointly manage the database of monetary transactions. It creates a block for each transaction, and a system of code allows the individual to form changes within the code only associated with his/her transaction. Crypto currency like Bitcoin is traded using Block Chain Technology. World Economic Forum report predicts that by 2025, 10% of GDP are going to be stored on blockchains or block chain-related technology.

Blockchain technology can potentially disrupt this model of banking business; where it's the potential to attenuate the value of operations and reduce the instances of fraud. as an example, Financial institutions spend anywhere from \$60 million up to \$500 million per annum to stay up with Know your Customer (KYC) and customer thanks to diligence regulations consistent with a Thomson Reuters Survey. These regulations are intended to assist reduce concealment and terrorist activities by having requirements for businesses to verify and identify their clients. Blockchain would allow the independent verification of 1 client by one organization to be accessed by other organizations therefore the KYC process wouldn't need to start once again.

The technology are often utilized in payment systems. A number of the main factors driving the expansion of the blockchain technology market are transparency and immutability, faster transactions, and reduced total cost of ownership. The blockchain technology also offers other key benefits like trustless exchange, durability, and reliability, and empowers the users to regulate all their information and transactions. In coming years the key opportunity areas for

blockchain technology would be an interruption in technology across various industries; high adoption of blockchain technology for payments, smart contracts and digital identities; and evolution of a replacement breed of programmable blockchain technology platforms.

### Artificial Intelligence

Artificial intelligence is that the blend of three advanced technologies – machine learning, tongue processing, and cognitive computing. The concept of AI is to simulate the intelligence of humans into artificial machines with the assistance of sophisticated machine learning and tongue processing algorithms. a big amount of Research and Development of AI to beat the barrier of human intelligence like the speed and scalability. It's tremendous potential to be absorbed by banks to extend its scalability, increase the speed and accuracy of transactions and effective customer relationship management.

Banks within the area of fraud detection, chatbots to interact with customers, algorithm trading for trades within the stock exchange, data management, and business analytics mostly believe AI. Major Banks across the world are shifting from rule-based software systems to AI based systems which are more robust and intelligent to the anti-money laundering patterns.

Chatbots are AI based automated chat systems which simulate human chats with none human interventions. They work by identifying the context and emotions within the text chat by the human user and answer them with the foremost appropriate reply. Chatbots are already being extensively utilized in the banking system to revolutionize the customer relationship management at a private level.

### Cyber Security

Banks in India have progressively adopted new technologies in operations and customer services. There has been a growing demand for technology-enabled services. The changing dynamism of demographics with more millennials arising to become customers of banking and financial services. As a result, there has been an incredible shift in customer's preference towards digital banking.

This pragmatic change in digitization would enhance the customer experience and optimize the value of service to the banks. While these moves are likely to profit the banks, the flip side of the change is that the cyber threats the industry got to address. Banks are seen to be more proactive in investing and improving security practice as compared to many other sectors. Banking is increasingly operating as a 'boundary-less' ecosystem such measures should be inadequate considering the challenges with the normal approach thereto security are Proliferation of attack vectors and enhanced attack surface.

### Features of disruptive technology

- 1) Lower margins, a minimum of within the beginning.
- 2) Higher risks.
- 3) Either disrupts an existing market or creates a replacement market segment within the existing one.
- 4) Sales arguments and measures useful are usually fundamentally changed.

- 5) Often involves new technology and/ or a replacement business model.

Financial Institutes perform two major functions in an economy- first maturity transformation and liquidity provision that is taking deposits and disbursing loans and second payment and transaction services, both these functions depend profoundly on information processing, specifically the second one.

### 3. Conclusion

Digital disruption in the financial sector is fueled by factors both on the supply side and on the demand side based on customarily technological developments which are supplemented by changes in consumer expectations of service.

Disruption in finance is increasing exponentially with technology as the driving force and it will have a more important economic impact than ever. Starting from augmenting customer experience to covering investment opportunities and thwarting fraud and alleviating investment risks, these technologies are not only potent in revolutionizing the banking and finance industry but also in developing the financial health of many a citizens of our nation.

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