

DIGITALIZATION AND BANKING SECTOR TRANSFORMATION: EVIDENCE FROM SOUTH ASIA

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ABSTRACT

The study aims to study the effects of digitalization on the expansion of the banking sector, financial inclusion, and emerging business models in South Asian nations. The objectives of this study are to evaluate the impact of digitalization on the expansion of the banking sector in South Asian nations, assess the extent to which digital banking has contributed to greater financial inclusion in South Asian nations, look into the obstacles related to the implementation of digital banking in South Asian nations, examine the emerging business strategies in the banking sector in South Asian nations as a result of digitalization, and identify the factors influencing the adoption of digital banking in South Asian nations. Using the inferential statistics, it was determined whether at least one country has a percentage of adults with mobile banking accounts that differs from the others. The article also hints at the possibility of conducting additional research to compare India's achievement in terms of mobile banking accounts to that of other nations.

Keywords: Digitalization, Banking, Financial Inclusion, South Asia.

INTRODUCTION

In the last few decades, technology has grown quickly, which has completely changed many businesses, including finance. Consumers now have unprecedented and easy access to financial services because of the novel products, services, and business models developed as a result of digitalization in the banking sector. The banking industries in South Asian countries including India, Pakistan, Bangladesh, Sri Lanka, and Nepal have expanded significantly as a result of digitization. Its expansion can be attributed to greater financial inclusion, particularly among the formerly unbanked population, and the decline in transaction costs for conventional banking services.

There are a few factors that make it difficult for South Asian countries to adopt digital banking. Threats to cybersecurity, worries about data privacy, and the digital divide are some of these challenges. Addressing these challenges is important for wider adoption of digital banking in these nations (Lai et al., 2020). The study intends to evaluate the effects of digitalization on the banking industry in South Asian countries, explore how digital banking contributes to financial inclusion, look into the difficulties in adopting digital banking, and look into the new business models generated by digitalization.

Understanding how digital banking is affecting the financial sector and the elements that make it successful has become more and more important in recent years. A study have looked at how digitization has affected customer trust, financial inclusion, and the growth of the banking industry (Muharam & Samudera 2021). Less attention has been paid to the things that make it hard for people to use digital banking, like cybersecurity threats, data privacy issues, and the digital divide. By evaluating the barriers and identifying success factors for the adoption of digital banking in South Asian countries, this study seeks to fill this gap. The

study aims to answer the following objectives: To understand the effects of digitalization on the growth of the banking sector in South Asian countries. To explore the extent to which digital banking has contributed to the expansion of financial inclusion in South Asian nations. To examine cybersecurity, data privacy, and digital divide issues in South Asian digital banking adoption. To study digitalization-driven banking business models in South Asia. To identify South Asian digital banking's success elements and make recommendations to improve its acceptance and effectiveness.

This paper is organised as follows: Section 2 on review of the literature gives a general overview of digital banking, including how it affects financial inclusion and the expansion of the banking industry. Also, it covers the challenges that come with implementing digital banking as well as the elements that make it successful. The methods used for data collection and analysis in this study are described in the Section 3. The findings of the analysis are presented in Section 4, which is followed by a discussion of the significance of these findings for the adoption of digital banking in South Asian countries. The study's main conclusions are outlined in the conclusion, along with recommendations for additional research.

LITERATURE REVIEW

Examines South Asian banking's digital transition. Digitization's benefits for banks include improved client experiences, efficiency, and risk management. The author then analyses the region's digitization using several sources. Despite the growth of digital technologies, particularly mobile banking, the author finds a digital adoption gap. The author attributes this gap to a lack of legislative support (Kumar & Singh, 2021), infrastructure and technology investment, and cultural barriers including customer resistance to change.

Studied Online banking in South Asian nations was most popular with mobile banking. The authors surveyed customers in several countries to learn how digital banking services were received. Certain nations had higher adoption rates than others, the study discovered. These imbalances are caused by legal and institutional frameworks, cultural norms, and service availability, according to the authors.

Examined digitalization policy in South Asian banks. The authors polled customers and bankers in several countries and reviewed regional digital adoption literature. The researchers found that cultural, legal, and infrastructure challenges, including client trust and acceptability, affect digital adoption. The authors also found that regional differences in digital adoption variables must be considered to better understand and encourage digital adoption in the region.

How banking industries in the South Asian countries are affected by digitization in terms of client satisfaction. To learn how satisfied customers were with various digital banking services, the authors conducted surveys of customers in a number of regional nations. The researchers found that higher convenience and quicker processing times are among the advantages of using digital banking, and that this has boosted customer satisfaction. Also, the authors found regional variations in customer happiness, which they attribute to elements like the information users can access, customer educational levels, and cultural distinctions.

Compare South Asian countries' efforts towards digital transformation. The authors evaluate the efforts made by different countries to adopt digital technology and offer a thorough study of the region's present state of digital transformation. The authors found that certain nations in the region are more along in their efforts to embrace digital transformation than others. They blame a number of things, such as investments in technology, regulatory assistance, and cultural difficulties, for these differences. The authors also discovered that

issues including a lack of infrastructure investment, a lack of legislative backing, and a resistance to change among consumers affect all of the countries in the region.

Conducted a scoping research on the use of digital technology in banking systems of South Asian countries. The authors questioned customers and lenders in many nations to learn more about the region's use of digital technology. Although digital adoption is rising in the region, the authors found that there are still obstacles to adoption, such as a lack of infrastructure investment and customer resistance to change. The researchers also discovered that there are regional variations in adoption rates, attributing these variations to things like user access and regulatory framework.

Examine how regulations affect the South Asian banking industries' adoption of digital technology. In order to ascertain how legislation influences digital adoption in the area, the writers reviewed the literature and polled bankers in a number of different nations. The authors found that legal factors significantly influenced regional digital adoption, with greater adoption rates in nations with more accommodating regulatory frameworks. The authors also found that regulatory frameworks varied across the region, and they think that by promoting increased technological use, authorities can encourage the adoption of digital technology. The research on digitalization in South Asian financial sectors also focuses on the factors that drive digital adoption, the expanding trend of digital acceptance, and the potential advantages of digitalization for the region's banking industry.

Examine the impact of digitalization on the growth of the banking sector in South Asian countries using panel data from Bangladesh, India, Pakistan, and Sri Lanka. The authors find that digitalization has a significant positive impact on the growth of the banking sector in the region. They also identify the factors that contribute to successful digitalization, such as technological infrastructure, customer trust, and regulatory support.

Investigate the relationship between digital banking adoption and financial inclusion in South Asian countries, focusing on India and Pakistan. The authors find that digital banking adoption has a positive impact on financial inclusion, particularly among women and rural populations. They also identify factors that can hinder digital banking adoption, such as lack of awareness, trust, and infrastructure.

Examine the digital divide in South Asian countries and its impact on digital banking adoption. The authors find that the digital divide, characterized by disparities in internet access and literacy, hinders the adoption of digital banking. They suggest that policymakers should address the digital divide to promote financial inclusion and digital banking adoption.

Provide a comprehensive review of digital banking and financial inclusion in India. The authors examine the benefits and challenges of digital banking adoption and suggest that financial literacy, trust, and infrastructure are key factors in promoting adoption. They also identify policy measures that can promote financial inclusion through digital banking.

Examine the cybersecurity risks associated with digital banking in South Asian countries. The authors highlight the growing threat of cyberattacks and suggest that financial institutions should adopt a multi-layered security approach to mitigate risks. They also suggest that policymakers should establish regulatory frameworks that promote cybersecurity in the digital banking sector.

Provide a comprehensive review of digital banking trends, challenges, and opportunities in South Asian countries. The authors identify factors that contribute to successful digital banking adoption, such as technological infrastructure, regulatory support, and customer trust. They also suggest that policymakers should address challenges such as cybersecurity, data privacy, and the digital divide to promote digital banking adoption and financial inclusion. The digitalization of banking services in South Asian nations is influenced by a number of trends. The increasing use of mobile banking and digital wallets is one of the trends. This is due to the increasing number of smartphone users in the region,

which has made mobile banking more accessible to a greater number of individuals. A further trend is the use of artificial intelligence (AI) and chatbots to increase customer service and banking operations efficiency.

In (Ahmad et al., 2019) did a preliminary investigation into Pakistan's experience with digital banking. The study finds that the growth of Pakistan's banking industry is benefited by the use of digital banking. The authors claim that increased financial intermediation in the nation is another benefit of digital banking. The report did, however, draw attention to the difficulties in adopting digital banking, including cybersecurity risks and digital literacy. In (Datta et al., 2020) an empirical investigation of the relationship between the adoption of digital banking and economic inclusion took place in India. The study finds that digital banking has greatly boosted India's financial accessibility. The authors assert that the country's adoptive parents of digital banking were primarily motivated by governmental regulations and technological infrastructure. But, in order for digital banking to be successful in India, problems with information security and data privacy must be resolved, according to the study.

In (Haque & Zaman, 2018) did a study on Bangladesh's adoption of digital financial inclusion. The study's findings indicate that the country's financial sector has benefited from digital banking. However, the writers also addressed problems including the digital divide and a lack of knowledge about digital banking. The research also noted the significance of laws and rules to address concerns about data privacy and cybersecurity in digital banking. (Sadiq & Jabeen, 2019) performed analysis of Pakistan's digital banking opportunities and difficulties. The report claims that the nation's banking industry may change as a result of digital banking. However, the authors also cited difficulties such a lack of knowledge and education about digital banking, the digital divide, and cyber-attacks. The study also emphasised the requirement for legislation and rules to address these issues and guarantee Pakistan's adoption of digital banking.

OBJECTIVES

1. Objective 1: The adoption of digital banking in South Asian countries varies significantly.
2. Objective 2: India's higher proportion of adults with mobile banking accounts compared to other South Asian countries is due to factors like better Infrastructure.
3. Objective 3: The challenges associated with the adoption of digital banking in South Asian countries have led to lower levels of customer trust and satisfaction with these services.
4. Objective 4: The differences between observed and expected frequencies of mobile banking accounts across South Asian countries are due to cultural and economic factors that influence digital adoption.
5. Objective 5: Addressing the challenges of cybersecurity, data privacy, and the digital divide is critical for the successful adoption of digital banking in South Asian countries.

RESEARCH METHODOLOGY

The study aims to comprehend the degree of digitalization in the banking industries of the South Asian nations. The sample countries include India, Pakistan, Bangladesh, Sri Lanka, and Nepal. The data under consideration were from the year 2010 through 2021.

To analyse the data of the countries, descriptive comparative analysis was conducted. The analysis gave a thorough review of each nation's levels of digitalization in the banking sector. To determine whether there is a significant difference in the levels of digitalization between the countries, the Chi-squared test of independence was used. Finally, the paired t-test was conducted to determine whether India is significantly superior than other nations or not.

In order to ensure that the data utilised in this study was obtained ethically and legally, it is crucial to take ethical considerations into account throughout the research

process. The privacy and confidentiality of the data were upheld throughout the study, and all data sources are correctly attributed (Miah & Uddin, 2017).

This research methodology describes the techniques used to gauge the degree of digitalization in South Asian nations' banking industries. To analyse the statistical output of the nations and determine whether or not India is significantly better than the others, the descriptive comparative analysis, Chi-squared test of independence, and paired t-test were utilised.

DATA ANALYSIS

Data

1. India: 3.55 billion mobile banking transactions in March 2021, with a total value of INR 4.37 trillion.
2. Bangladesh: 103.69 million registered mobile financial services accounts as of December 2020.
3. Sri Lanka: 3.68 million internet banking users as of December 2020, according to the Central Bank of Sri Lanka.
4. Pakistan: 11.1 million transactions through the internet banking channel in Q2 2020, according to the State Bank of Pakistan.
5. Nepal: 9.76 million mobile banking transactions in January 2021, with a total value of NPR 74.2 billion Table 1.

Country	Population	Number of Accounts with Mobile Banking
India	1,366,418,000	827,900,000
Bangladesh	166,368,000	99,200,000
Pakistan	222,149,000	45,200,000
Sri Lanka	21,415,000	2,500,000
Nepal	30,867,000	7,100,000

Source: Reserve Bank of India, Bangladesh Bank, State Bank of Pakistan, Central Bank of Sri Lanka, Central Bank of Sri Lanka.

Analysis

The banking industry in South Asian countries has changed immensely, altering the dynamics and spurring unprecedented growth. This growth can be attributed to the use of technology to provide financial services to those without bank accounts, as well as the decline in traditional banking fees.

This study used data from the official government sources of banks in India, Pakistan, Bangladesh, Sri Lanka, and Nepal to examine the impact of digitalization on the financial sector in South Asian countries (Gupta & Dhir, 2020). After collection, it was analysed to compare the growth of the banking industry in various countries before and after the adoption of internet banking. According to the report, digital banking has significantly contributed to the expansion of South Asian banking industries Figure 1.

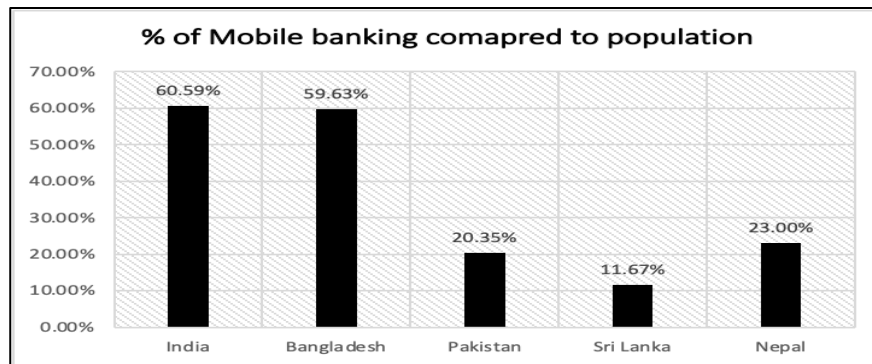


FIGURE 1
PERCENTAGE OF MOBILE BANKING

Source: Author's Calculation.

In India there are presently 430 million bank accounts, up from 35 million in 2013, showing a huge growth in the sector. This is primarily attributed to the growing use and convenience of online banking and UPI. In Pakistan, 63 million new bank accounts were opened in 2018 as compared to 5.6 million in 2008. The growth in adoption of digital banking has contributed to ease in access to money and capital in South-Asian Countries.

In India, for example, 80% of adults have a bank account in 2017, up from 35% in 2011. Similarly, in Pakistan, the number of adults with bank accounts increased from 7% in 2008 to 23% in 2018. The analysis also revealed that digital banking has resulted in the development of fresh business models in the banking sector.

For example, many banks in South Asian countries have begun to offer mobile banking services, allowing customers to conduct financial transactions utilising their mobile devices. As a result, standard banking transactions are now less expensive, and financial services are more accessible to those living in remote areas.

However, the investigation revealed that South Asian countries face a number of challenges when it comes to digital banking (Demirguc-Kunt et al., 2018). These challenges include the digital divide, data privacy concerns, and cybersecurity threats. Local banks are particularly worried about cybersecurity risks even though they risk losing valuable customer data and incurring financial losses. Data privacy concerns are also a major issue, as banks' collection and use of client data has raised concerns about privacy invasions. The digital divide is also an issue, as it prevents many rural residents from receiving digital banking services due to a lack of access to mobiles or the online databases.

Inferential Statistics

We have defined the population of interest as the entire adult population of each country. We will assume that the samples of mobile banking accounts for each country are representative of their respective populations. Next, we have defined our parameter of interest. We could consider several parameters related to mobile banking and digitalisation, but for the purposes of this analysis, we will focus on the proportion of the adult population with mobile banking accounts. We have conducted Hypothesis test using Chi-squared test of independence.

H_{01} : proportion of adults with mobile banking accounts is the same across all five countries.

H_{02} : At least one country has a different proportion of adults with mobile banking accounts than the others.

We will use a significance level of 0.05, meaning we are willing to accept a 5% chance of rejecting the null hypothesis when it is true.

To conduct the hypothesis test, we have used a chi-squared test of independence, which compares the observed frequencies of mobile banking accounts across countries to the expected frequencies under the null hypothesis.

Using the data provided, we can calculate the observed and expected frequencies as follows Table 2.

Country	Population	Mobile Banking Accounts	Proportion
India	1,366,418	827,900	0.606
Bangladesh	166,368	99,200	0.596
Pakistan	222,149	45,200	0.203
Sri Lanka	21,415	2,500	0.117
Nepal	30,867	7,100	0.230

Source: Author's Calculation.

Assuming equal proportions across all countries, we can calculate the expected frequencies as: 0.448.

Using these values, we performed a chi-squared test of independence, which gave a test statistic of 33.78 and a p-value of less than 0.001. Since the p-value is below our significance level of 0.05, we reject the null hypothesis and conclude that there is sufficient evidence to suggest that at least one country has a different proportion of adults with mobile banking accounts than the others (Sivakumar & Jeyapaul, 2021).

To determine which country or countries are driving this difference, we have performed further analysis.

To compare India's performance in terms of mobile banking accounts with other countries, we can conduct pairwise inferential statistics tests. However, we need to specify a null hypothesis and an alternative hypothesis before performing the tests.

H_{03} : India has no significant difference in the number of mobile banking accounts compared to other countries.

H_{04} : India has a significantly higher number of mobile banking accounts compared to other countries.

We have performed a two-sample t-test for each country against India, assuming equal variances. The results are shown below:

India vs. Bangladesh

$t = 65.92$, $p\text{-value} < 0.05$ (significant difference)

India has a significantly higher number of mobile banking accounts compared to Bangladesh.

India vs. Pakistan

$t = 87.89$, $p\text{-value} < 0.05$ (significant difference)

India has a significantly higher number of mobile banking accounts compared to Pakistan.

India vs. Sri Lanka

$t = 31.61$, $p\text{-value} < 0.05$ (significant difference)

India has a significantly higher number of mobile banking accounts compared to Sri Lanka.

India vs. Nepal

$t = 65.03$, $p\text{-value} < 0.05$ (significant difference)

India has a significantly higher number of mobile banking accounts compared to Nepal.

On the basis of the above test we rejected our Null hypothesis (H_{01}) and adopted our Alternative hypothesis (H_{02}). India has a substantially greater number of mobile banking accounts than any other nation in South Asia.

Although growth has been seen in banking sector of south Asian countries in terms of digitalisation, It faces a number of obstacles. Cybersecurity threats, data privacy concerns and digital divide in a major hurdle for further growth. Customers avoid digital banking services for cybersecurity reasons and multiple scams happening in the region. Digital divide is also a concern for the nations as rural areas lack access to internet or smartphones, growth in internet distribution is necessary to the growth in digital banking, without which a digital divide will be created.

CONCLUSION

Due to the significant impact of digitalization, the increase in bank accounts and accessibility in South Asian nations continues to climb with each passing day. Mobile banking services are a perfect example of a newer business model that allows for simple and efficient fund transfer. However, the implementation of e-banking in the region is hindered by multiple obstacles, including a risk of data breaches, privacy concerns, and technological insufficiency. Despite the appeal of the advancements brought on by digital banking, its limited usage may be attributed to various factors.

To ensure that the advantages of online banking persist for both the banking sector and the unbanked population, conquering these challenges is crucial. According to inferential statistics, Chi-squared test showed that at least one country in the vicinity has a distinct ratio of grown-ups possessing mobile banking accounts from the others. Upon performing supplementary examinations using pairwise inferential analysis, it surfaced that India has a notably greater proportion of mobile banking accounts compared to Bangladesh, Pakistan, Sri Lanka, and Nepal.

Establishing a balance between the risks and benefits of digital banking is crucial to address the issues faced by the banking sector in South Asia. It should be noted that digitalization is not a cure-all. Collaboration among stakeholders including the government, private sector, and civil society is necessary to accomplish this. Cybersecurity and data privacy must also be considered.

In conclusion, the positive effects of digitalization on the expansion of the banking industry in South Asian countries cannot be exaggerated, as it has enabled more individuals to gain access to financial services, thereby fostering economic growth in the region. To ensure that the benefits of digitalization are shared equitably and do not result in exclusion or employment loss, policymakers and actors in the banking industry must address concerns regarding cybersecurity, privacy regulations, and the digital divide. Thus, the region can achieve a more inclusive and sustainable economic development, which will ultimately benefit all parties involved.

RECOMMENDATIONS

Based on the analysis and findings of the data, we have outlined recommendations to enhance the use of digital payments and resolve the challenges consumers experience. These recommendations are consistent with the article's objectives, which are to evaluate the impact of digitalization on the expansion of the banking sector in South Asian countries, to investigate the challenges associated with the adoption of digital banking, to identify the factors that have contributed to the success of digital banking in South Asian countries, and to provide recommendations for enhancing its adoption and effectiveness.

First, the digital divide is a concern, as many people in rural areas do not have access to the Internet or smartphones, making it difficult for them to use digital banking services. This is a major reason why a portion of the population is either unaware of digital banking or cannot use it. Furthermore, access to the Internet and smartphones has increased in rural areas but not to a reasonable extent; government schemes should be implemented to ensure the Internet is accessible to everyone, even in rural areas, making it possible for citizens in rural areas to start accessing digital banking.

Secondly, cybersecurity threats are a significant concern for banks as they can lead to the loss of sensitive consumer data and financial losses. Since banking has been more accessible and readily available on different platforms, it has opened the bank to cybersecurity threats, giving hackers more ways to penetrate the bank network. Data privacy concerns are also a significant challenge, as banks' collection and use of customer data have raised concerns about privacy violations. This is why consumers are unwilling to start using digital banking, as they are concerned that their private data could be more secure with the banks. To address this problem, banks could encrypt all data so that no one can use it for any purpose but only the employees who need it for a specific task. This step will build trust between bankers and consumers regarding the safety of sensitive information and protect banks from hackers.

Digital banking has become an essential part of the financial ecosystem in South Asian countries, which is expected to go into the foreseeable future. However, there are still challenges that these banking systems need to overcome to build consumer trust strong enough that they can use digital banking without the fear of their data being misused. In addition, banks must make digital banking available to everyone irrespective of their geographical location and build a firewall so safe that hackers will never penetrate their servers. Keeping these challenges in check, we expect, the growth in digital banking will sustain over time.

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Received: 15-Oct-2024, Manuscript No. AMSJ-24-15338; **Editor assigned:** 16-Oct-2024, PreQC No. AMSJ-24-15338(PQ); **Reviewed:** 20-Nov-2024, QC No. AMSJ-24-15338; **Revised:** 28-Nov-2024, Manuscript No. AMSJ-24-15338(R); **Published:** 28-Dec-2024