Phygital Banking – A Game Changer In Indian Banking Sector

Kathari Santosh

ABSTRACT: ***Phygital banking is a mix of physical and digital entities at all critical interaction points is necessary to ensure a positive customer journey. 'Phygital' is about being inherently digital across all channels (physical and digital), operations and the very way banks are organized and manage their business. Banks that can craft a blend that effectively touches customer experience, operations, and delivery are most likely to thrive in a fast-changing world. Banking executives will need to rethink traditional branches and integrate digital into their service models. As banks continue to invest in technology, the value of human interactions remains a crucial success factor.The present depends on secondary data. The aim of the study is to know the importance of transformation of phygital banking and also understand the issues and challenges of digital banking. Therefore, a better model is needed – one that provides the best of both worlds by combining physical interaction with digital services. Realizing the opportunity, some banks today offer phygital services by transforming their branches and humanizing digital experiences.***

Key words: Phygital Banking, Customer experience, Hybrid model, Humanizing digital experiences.

I. INTRODUCTION

In today's world, a mix of physical and digital entities at all critical interaction points is necessary to ensure a positive customer journey. Banks that can craft the right blend that effectively touches customer experience, operations, and delivery are most likely to thrive in a fast-changing world.

II. Objectives of the Study

1. To understand the issues and challenges of digital banking.
2. To know the importance of transformation towards phygital banking.
3. To identify the present applications of phygital banking.

III. Statement of Problem

The digital banking concepts and applications had got world wide acceptance. Though there are major benefits emanating from digital banking, the concept of personalized experience in banking is still preferred by the bank customers. Hence a transformational perspective from digital banking to phygital banking that involves both technology and personalized experience is to be analyzed.

IV. Research Methodology

The phygital banking concept is an emerging area. Hence a desk research on the various concepts of digital banking and phygital banking has been conducted. The concepts are presented with a view to understand the transformational phase of digital banking to phygital banking. The secondary data is used as the base for the study. The data is obtained from relevant websites pertaining to the concept of phygital banking.

Digital Banking

Digital banking can be defined as extending the transactional facility to customers by banks through various secured digital channels by taking care of data security, related risk mitigation and regulatory aspects by banks themselves. This is achieved by integrating online (internet) and mobile banking services by adoption of latest digital technologies like analytics, social media, innovative payment solutions and mobile technology with the aim of exceeding customer expectation, convenience and experience.

Phygital Banking

'Phygital' is about being inherently digital across all channels (physical and digital), operations and the very way banks are organized and manage their business.

V.Characteristics of a Phygital bank

a. Interaction with customers digitally in dual form

First, a 'Phygital' bank interacts with their customers digitally across both Physical and Online channels. All interactions are powered by Digital to have intelligent context aware conversations with the customer as a bank – and not as soloed individuals or channels. In each interaction the Phygital Bank of today, embeds Artificial Intelligence (AI) powered robots and intuitive User Interface (UI) to break the cognitive, language and literacy barriers to increase end-to-end seamless interactions for all customers.

b. All operations are digitalized

Second, just as the interactions with customers are digital so are its operations. All operations are powered by digital and a Digital First approach is adopted. For example, before residence verification is conducted – the bank relies on digital sources like CIBIL, Aadhar etc. Similarly, before mailing the physical documents there is usage of scanned images.

Wherever possible digital APIs are used to eliminate the need for the physical documents. Similarly, use of Robotic Process Automation for repeatable tasks, IOT in hypothecated assets, drones for verification in insurance etc. help in significantly reducing costs and

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simultaneously creating experiences that command a disproportionate market share.

c. Inherently digital as an organization

Finally, a Phygital Bank is inherently digital as an organization. Everything in the organization including its leadership, culture, the way organization collaborates to deliver its services and how skills are leveraged, acquired or developed is attuned to the digital era. It is inherently agile and leverages digital tools like living dashboards, algorithms, social and crowd to multiply productivity and evolve rapidly.

VI. Importance of Phygital Banking

a. Enhanced customer experiences

Indian banking landscape is changing rapidly, and digitalization is driving that change. The Indian government is aggressively promoting digital transactions with initiatives or policies such as Digital India, demonetization, and the United Payments Interface. New age competitors with agile models and seamless customer experience are giving established banks a run for their money. Banks face a new paradigm where the definition of customer experience and the way customers interact with their bank is being refined. Hence, the first agenda item for many banks in India is digitization.

b. Improving economical efficiency

Rising cost pressures and the need to improve efficiency have forced some banks to close branches. While their growth may be diminishing, branch banking dominates other channels in India, mainly because of security concerns and customers' low financial literacy. There are still some bank services that cannot be fulfilled from a remote location. Human interaction enables banks to build trust, credibility and provide related advisory services. Some customer segments still depend on traditional banking methods and are only comfortable with face-to- face interactions. With customers split into different segments, banks require more than one delivery method or a hybrid approach to satisfy the needs of all.

c. Reimaging the customer interactions

Banks are looking to re-imagine the network and channels where customers interact and aim to make the interactions seamless to provide a frictionless experience. Banks are fast-tracking transactional activities and aiming to spend more quality time with the customer to improve loyalty and increase sales capacity. Banks will need to adopt a customer journey mindset, with end-to-end processes supported by artificial intelligence (AI), robotics, machines, and human agents.

Thus a hybrid approach that combines digital and personal interactions will create a more responsive and cost-effective distribution model.

VII. Transformation from Digital Banking to Phygital Banking

The Indian banking sector provides the following personalized digital banking experience for customers.

Online and Mobile Banking: Banks are providing Omni-channel experiences that are seamless and unified across all touch points; for a customer, it is possible to do virtually every single banking operation right out of the palm of one's hand from a smart phone/tablet.

Cloud: There has been a significant turnaround over the past few years in bank attitude toward the use of the cloud. As security threats recede, more and more firms are adopting cloud- based solutions. Although most Indian banks have applications on private or public clouds, they are expected to follow the global trend of moving to a hybrid cloud.

Distributed Ledger Technology (DLT): Some of the largest Indian banks already use the DLT and the technology is now finding buyers among high-street lenders seeking to thwart competition from FinTech and BigTechs firms. Ex. Kotak Mahindra bank tapped into Ripple xCurrent to power instant remittance payments.

Artificial Intelligence (AI): Banks are leveraging technologies such as AI and ML (machine learning) on different functions enabling them to offer far more personalized and efficient customer service.

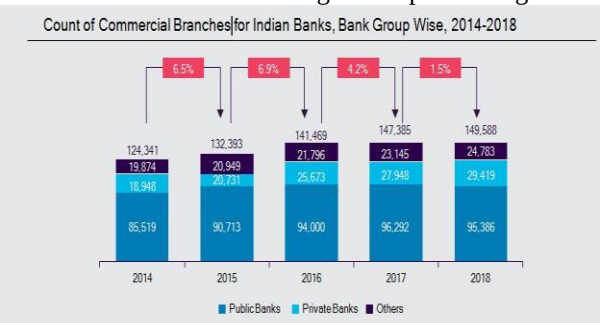
Digital-Only Banks: A breed of banks has emerged that provides services via digital-only applications, a move that redefines banking by connecting with a new generation of mobile- first consumers. Ex. DBS Dig bank.

Open Banking: With regulations such as PSD2 and other open banking initiatives across the globe, banks have begun to share data with third parties to build innovative products and services. The Indian banking industry is following the trend too – with RBL Bank opening its API developer portals.

Cyber Security: Digitization of processes and increasing use of new technologies has made banks a prime target for cyber-attacks. Reserve Bank of India, as well as other individual banks are working towards enhancing cyber security mechanism. Banks understand that digitalization and technological evolution has changed the way banking is being done today, driving them to invest significant resources in digital initiatives.

VIII. Importance of Physical Engagement in Banking

Over the past few years, the growth rate for brick-and-mortar branches has declined in India. Cost pressures and operational efficiency priorities have spurred banks to optimize their branches. On average, branch transactions cost a bank about ₹70-75 per customer while ATM transactions cost about ₹15-16. However, internet and mobile transactions reduce costs to less than ₹2 and ₹1 per customer respectively. With an eye on efficiency, banks are adding branches in unbanked areas and closing offices in metro or tier-1 cities where digital adoption is higher.



Source: Reserve Bank of India – Website, Accessed November 28, 2018

Branches Retain a Critical Role for Customers

Although some bank branches are closing, others continue to play an important role. In India,

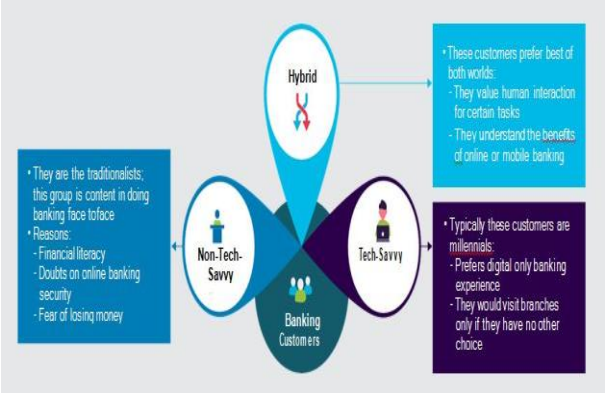
physical bank branches dominate banking channels, with 94% of retail banking customers having visited a branch at least once in the past 12 months. Only 51% of retail banking customers has a reliable online banking experience with their primary financial institution, and only 9% use mobile banking for everyday transactions.

The scenarios in which customers visit branches can be classified into two categories:

a. MUST Visit Scenarios: This category includes situations where customers and potential customers must visit the branch. Most retail customers' cash deposits still take place at the branch, until banks provide facilities of ATM deposits or kiosks. Most regional banks do not offer a decent digital customer acquisition mechanism, so customers have no alternative but to visit a branch. Some miscellaneous services such as safe deposit boxes and coin deposit processing still require a bank branch visit. These interactions provide an opportunity for banking staff to interact and engage with clients thereby building better customer relationships.

b. PREFER to Visit Scenarios: This category includes transactions that customers prefer to handle in person. For some services, customers want to talk to a person and gain advice. In-person engagement at the branch is both an expectation for many customers as well as a real opportunity for the bank. These engagements are critical for corporates or business clients and are different from those of retail consumers because they often require the support of a human agent. Data from a global banking executives survey shows that physical branches still play an essential role. A full 88% of respondents said physical branches add value to customers and will play a role in the future of banking. Moreover, 63% said they are planning to change their branch model in line with digital transformation. In this digital world, present-day customers can be segmented into different groups based on their tech-savviness.

Customer Segments Based on Tech Savviness



Source: Capgemini Financial Services Analysis, 2018

Non-Tech-Savvy: They are the traditionalists; this group prefers or is content in conducting banking transactions face to face. They are not inclined to use technology for their banking needs because they are not adept with technology or are more comfortable with traditional ways.

Tech-Savvy: Typically, these customers are millennia's; this group prefers to have digital only banking experience. They would visit branches only if they have no other choice.

Hybrid: These customers prefer the best of both worlds; they are not willing to forego traditional face-to-face banking, but they also see the benefits of online or mobile banking. They believe in technology and embrace it, but they also value human interaction and do not perform certain critical banking activities without it.

An Optimized Mix of Digital and Physical Services will Fuel Bank Success

In today's world, a mix of physical and digital entities at all critical interaction points is necessary to ensure a positive customer journey. Banks that can craft a blend that effectively touches customer experience, operations, and delivery are most likely to thrive in a fast-changing world.

Transformation of Bank Branch – Digitization (Phygital Banking)

Banking executives will need to rethink traditional branches and integrate digital into their service models. As banks continue to invest in technology, the value of human interactions remains a crucial success factor. Banks must prioritize human interaction to build trust and advisory-related services. Additionally, employees and sales personnel must upskill to deliver high-value solutions to customers and to ensure a positive and consistent customer experience.

IX. Cases of Phygital Banking in India

State Bank of India has set up 257 digital sbiINTOUCH branches aiming to offer advanced banking services such as instant loan approvals and assistance in choosing investment portfolios. These branches provide customers with an audio-visual experience with the added ability to print, scan, and share documents using touch screen controls. The solution helps SBI speed up transactional related activities by digitization and transform its communication model or human interactions for better customer loyalty, which will further help SBI improve cross-sales and up selling.

BBVA's Garanti Bank has infused digital into nearly 500 branches in a short period, providing customers with an entirely seamless banking experience. This service model aims to increase sales capacity by allowing employees more quality time with customers. BBVA's customers need not waste their time in lengthy procedures and signing loads of documents. They can complete transactions quickly via corporate tablets available at customer representative desks at branches or by using their own mobile devices.

Canara Bank is moving to paperless futuristic banking via, CANDI, its digital banking branch that offers customers an end-to-end digital experience. CANDI's humanoid robot answers basic customer questions about products and services. Moreover, the branch uses tools such as an on boarding application that allows customers to open a savings account immediately via fingerprint/ IRIS authentication. Customers may also take advantage of video banking to interact with remote-site subject matter experts about topics such as retail loans or corporate advances.

Kotak Mahindra Bank's digital branch offers a seamless, paperless, secure, and a smart banking experience through customer self-service and assisted-service models. The digital branch includes an e-lobby that offers 24x7 access to cash withdrawals and deposits, as well as check deposit machines. The quick service touch-kiosk makes banking easy, effortless, and quick and also offers extended

banking hours for basic services. Every Kotak digital branch features a dedicated lounge for customers to discuss their portfolios and investments.

Banks are investing in technologies – such as artificial intelligence – that are data intensive, systematic, and critical to profitability, customer experience, productivity, and compliance.

Source: Accenture – How to become a Phygital bank in a year

Hybrid Advisory

When consumers seek financial planning services, professional advice is often the best bet. However, personalized financial advice may require research, data and time, which can be daunting for a human, financial advisor. Robo advisors structure a portfolio according to a customer's preferences and optimize the risk-return to deliver maximum returns. Although machines and bots function more quickly than their human counterparts, the human element is critical in real life. Technology cannot understand customer feelings, because it lacks emotional quotient. Conversely, customers trust the advice of a person (advisor) over a machine when it comes to their hard-earned money – and seek human guidance for complex financial planning. So, a mix of both worlds is required, and hybrid advisory a prime example of phygital service. Using hybrid advisory, banks can provide personalized financial planning, while keeping the human touch in their financial advisory services.

X. Conclusion

Recognizing both the challenges and opportunities, Indian banks are investing in digitalization, emerging technologies, and data utilization techniques with good results. While there is this rapid uptake of digital banking services, a segment of customers continues to prefer branches and human interaction over technology. Even those who use digital channels for routine activities prefer human interactions for some specific banking tasks or services. While digital transaction volume is higher than that of branches, transaction values are higher for branches in most cases, especially for corporate transactions. With the ability to build trust, credibility, and loyalty with customers, human interactions and advice cannot be ignored.

Therefore, a better model is needed – one that provides the best of both worlds by combining physical interaction with digital services. Realizing the opportunity, some banks today offer phygital services by transforming their branches and humanizing digital experiences. As the industry continues to head down the open banking path, established firms can partner with Fin-Techs and third parties to provide innovative phygital services. The onus will be on banks to prioritize customer experience and to provide services that empower customers in a way that suits their needs and preferences.

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