



Digital Banking and the Evolution of Financial Services

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DOI:10.54741/SSJAR/5.6.2025.341

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Since the 1980s, the banking industry has been through a process of digitalisation across the retail, small and medium-sized enterprise (SME), corporate and wealth management lines of business. Over the past decade, the process of digital transformation has accelerated as banks have responded to new competition from digital-first challenger banks and disruptive start-ups that offer a personalised customer experience. Rapid growth of digital technology has transformed the financial services landscape, giving rise to digital banking. The present study explores the evolution of financial services driven by digital banking innovations, and their impact on traditional banking models. We examine the key drivers of digital banking adoption, including mobile banking, online platforms and fintech disruptions.

The present study highlights the opportunities and challenges presented by digital banking, such as enhanced customer experience, increased accessibility, and cybersecurity risks. As digital banking continues to reshape the financial services industry, this abstract sets the stage for a deeper exploration of its implications for banks' customers and the broader economy. Digital banking driven by technological innovations such as mobile banking apps, blockchain, and AI-powered financial services, has significantly changed how customers interact with financial institutions. This review explores the evolution of digital banking and its profound impacts on traditional banks, focusing on consumer behaviour, technological advancements and competitive pressures.

Keywords: digital banking, financial services, digital transformation, banking innovation.

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Nandlal Pandey, Former Post Graduate Student, Department of Commerce, University of Calcutta, Kolkata, West Bengal, India. Email: pnandlal1386@gmail.com	Pandey N, Digital Banking and the Evolution of Financial Services. Soc Sci J Adv Res. 2025;5(6):47-51. Available From https://ssjar.singhpublication.com/index.php/ojs/article/view/341	

Manuscript Received 2025-10-17	Review Round 1 2025-11-07	Review Round 2	Review Round 3	Accepted 2025-11-24
Conflict of Interest None	Funding Nil	Ethical Approval Yes	Plagiarism X-checker 4.32	Note



1. Introduction

The way we use banking has changed a lot. Earlier, people used to go to a bank branch to do things like withdraw money or check their account. Now, we can do most banking tasks online or on our phones. This change has made banking more convenient and accessible. The rapid advancement of digital technologies has revolutionized many sectors, with banking being one of the most impacted. Digital banking means using technology to do banking tasks online or on phones. This includes things like internet banking mobile banking and digital payments. New technologies like block chain and artificial intelligence are changing how banks work and how customers use their money. This change has also led to new companies (fintech firms) that are changing the way traditional banks work. They're doing things differently and focusing more on what customers want.

This study looks at how digital banking is changing the financial industry. It talks about the technologies driving this change, how it affects banks and customers and the challenges and opportunities that come with it. It also looks at how digital banking can help more people access financial services, how governments can regulate it, and what the future of banking might look like. Banks need to understand these changes to stay competitive and manage risks while innovating. The rise of digital banking in recent years represents a significant acceleration of technological change, fuelled by factors like COVID-19. This paper explores the changing shape of digital banking; the potential for both competition and collaboration between banks, FinTechs and traditional tech companies; and examines how consumer demands are driving innovation.

2. Literature Review

Srini Kasturi (2023) stated in her research work that financial services industry has a long history of deploying new technology to respond to evolving customer expectations. The rise of digital banking in recent years represents a significant acceleration of technological change, fuelled by factors like the COVID-19 pandemic and shifting demographics. In the vanguard of sweeping industry changes are the FinTech providers. Advances such as cloud computing APIs and machine learning are being deployed to deliver seamless,

24/7 finance and banking services to consumers who now expect immediate, accessible digital solutions that provide both safety and convenience. Peter-Jan Van De Venn (2023) highlighted that Since the 1980s the banking industry has been through a process of digitalisation across the retail, small and medium-sized enterprise (SME), corporate and wealth management lines of business. Over the past decade, the process of digital transformation has accelerated as banks have responded to new competition from digital-first challenger banks and disruptive start-ups that offer a personalised customer experience.

Svitlana Melnychenko, Svitlana Volosovych, Yurii Baraniuk (2020) stated that the purpose of the research is the definition of the dominant ideas of financial technologies in digital banking. The methods of theoretical generalization, qualitative, quantitative and correlation analysis, causality tests, description and explanation are used, which made it possible to establish the relationship between the volume of investments in financial technologies and the performance of the banking system, identify the areas of application of financial technologies in the activities of the bank, determine the dominant ideas of financial technologies in digital banking and to uncover the factors and prospects of intensifying the use of financial technologies in digital banking in Ukraine.

Anu Bask, Hilka Merisalo-Rantanen, Markku Tinnila, and Theresa Lauraeus (2011) explored the evolution of business models over time in five Finnish organizations from the banking, insurance or retail sector. The scope of the banking services to consumers has been extended in traditional banks from basic banking services to asset management, insurance and expert services. Deregulation and new technologies have enabled internationalization and free competition. Ritesh Ranjan(2000) in his research work stated the rapid advancement of digital technologies has revolutionized many sectors, with banking being one of the most impacted. Digital banking, driven by technological innovations such as mobile banking apps, blockchain, and AI-powered financial services, has significantly changed how customers interact with financial institutions. This transformation has led to both opportunities and challenges for traditional financial institutions (TFIs), requiring them to adapt quickly or risk obsolescence.

3. Objectives of the Study

The objectives of the study are as follows -

- To examine Indian banking sector has changed a lot over time.
- To look at new financial ideas in Indian banking.
- To understand the problems Indian banks face in a changing world.

4. Methodology of the Study

The present study is descriptive in nature and is based on the secondary sources collected from related websites, case studies, working papers, reputable journals, etc.

5. Conceptual Framework

The evolution of the Indian Banking Sector can be divided into 3 Phases. They are as mentioned below:

Phase I: Early Days of Indian Banking

Indian banking started in 1786 with the General Bank of India. Soon, other banks like Bengal Bank, Bank of Bengal, Bank of Bombay, all these banks were merged know as Presidency Banks. These banks were controlled by the British. In 1921, they merged to form the Imperial Bank of India. But Indians wanted their own banks, so Allahabad Bank (1865) and Punjab National Bank (1894) were set up. Many more followed, like Bank of India and Central Bank of India. However, these banks needed regulation, so the Reserve Bank of India (RBI) was created in 1934 to oversee them. RBI started working in 1935. Back then, people didn't trust banks much and preferred saving with the postal department.

Phase II: Nationalisation of Indian Banks, up to 1991, before Indian Banking Sector Reforms

Major steps taken by the Indian Government after Independence that changed the picture of the entire Indian Banking Sector. The major change in the Indian banking sector arrived with the nationalisation of the Imperial Bank of India in 1955. This extensively spread the banking facilities to all rural and semi-urban areas.

The second phase of change in Indian banking arose when the State Bank of India was declared as the chief intermediary of the Reserve Bank of India; it started acting as the knob for Indian banking. Transactions of the Union and State Governments all over the country.

Later on, all 7 subsidiary banks of State Bank of India were nationalised on 19th July, 1959. The last change of second phase of the banking sector was the nationalisation of 14 major commercial banks in the country. 6 more banks were nationalised in the second phase of reforms carried out in the Indian Banking sector. These reforms brought 80% of the Indian banking segment under Government ownership, and this led to an increase in the public's faith in public sector banks, and because of nationalisation, the sustainability of the banking system increased to a large extent.

Phase III: Banking Goes Digital (1991 Onwards)

In 1991, India opened up its economy, and the government wanted to improve banking services. A committee led by M. Narasimhan was set up to make banking better. This led to new products, services, and tech like mobile and internet banking. Banking became faster, more convenient, and transparent.

6. Innovations in Indian Banking

Banking innovations can be grouped into two main areas -

New Types of Banking: Online banking (E-Banking), Core Banking, Corporate Banking, Investment Banking, Rural Banking, NRI Banking and Retail Banking

New Products and Services: Fully automated branches, Banking from any branch, Demat Service, Microfinance (small loans for poor people), Plastic Money (Credit/Debit Cards), Mobile Banking.

7. Electronic Systems

Automated Teller Machine (ATM): ATMs let you withdraw cash, check your balance, and do other banking tasks without going to a bank. In India, they're super common and help people access cash easily. As of Feb 2026, Indians used ATMs about 414 million times, withdrawing ₹2,30,24,17, 30,5000.

Every month, around 490 million transactions happen via ATMs. But, the number of ATMs in India is dropping - from 253,417 to 251,057 in a year. This is probably because people are using digital payments more. Statistical data, Total ATMs: 2,51,057 (March 2025), Monthly transactions: 49 crore, Transaction value: ₹30.6 lakh crore (FY2025). The ATM market in India might grow 6.53% from 2026 to 2034, as people still need cash and banks are upgrading.

Real Time Gross Settlement (RTGS): It is a way to transfer money electronically between banks in real-time. How does it work?

- a) Real-time means the transfer happens instantly, as soon as the instruction is received.
- b) Gross Settlement means each transaction is settled individually, without combining it with other transactions.

RTGS is superfast, usually taking less than 2 hours to transfer funds. It's used for high-value transactions that need to be cleared quickly. The catch is, once the transfer is done, it can't be reversed. Think of it like sending urgent cash - it's quick, direct, and final.

National Electronic Funds Transfer (NEFT): It is a super common way to transfer money electronically between banks in India.

- a) You can send money from one bank account to another, even if the banks are different.
- b) Transactions happen in batches, usually every few hours.
- c) It is used for low-to-medium value transactions (no upper limit now, but typically ₹2 lakh and below).
- d) Money usually reaches the recipient's account within a few hours, sometimes the same day.
- e) It is widely used for things like paying bills, sending money to friends, or buying stuff online.
- f) No need for IFSC code if you're using the recipient's mobile number linked to their bank account (via UPI).
- g) Transactions are secure and can't be reversed once processed.
- h) Most banks offer NEFT through online banking, mobile banking, or ATMs.

8. Limitations of the Study

The limitations of the study are as follows -

- This study is based solely on secondary data owing to time constraints.
- The study is mostly descriptive and lacks concrete empirical data to support its claims about the impact of digital banking on traditional banking models.
- The study highlights the importance of digital banking, but doesn't provide a clear framework for banks to implement digital transformation.

9. Conclusion

Indian banking has become super strong globally, thanks to technology and innovations. It's not just about having capital but also about keeping customers happy. The focus has shifted from products to customers, and private sector banks have played a big role in driving competition and growth. Technology has transformed banking, making it more convenient and sophisticated, with services like internet banking, mobile banking, and ATMs. It's all about giving customers a better experience, and we're seeing a shift from traditional banking to more personalised, classy banking, especially in a growing economy like India.

Digital banking has revolutionised financial services, transforming traditional banking into convenient, customer-centric experiences. Digital banking has driven significant changes in financial services, pushing banks to innovate and adapt. The shift from branch-based to digital transactions increased accessibility and convenience for customers. Emergence of new financial products and services, growing competition from fintech and digital banks. Digital banking has reshaped financial services, prioritising customer experience and driving innovation.

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