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### Phyigital Banking – A Fillip to the Financial Inclusion in India

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#### Abstract

Moving on from traditional banking to digital banking, it is now creating a space for phyigital banking. The Indian banking system has certainly emerged with great emergence. With the goal of making the customer a king and banking the effort without the hassle, India sees the dawn of the day. To understand ground reality and empathizing the fundamental challenges of customers in the use of technology in the short term, in urban and rural India, banks rely on 'Phyigital Banking', a combination of physical and digital banking. So the present study depends on the secondary data. This study gives a clear picture of the importance of the phyigital bank and how it facilitates financial inclusion at the bottom of the pyramid. It found that digital was not widely accepted in rural areas due to lack of information and confidence. Phyigital on the bench is probably the best way to emphasize confidence. Phyigital banking can serve as a true facilitator. Phyigital banks are building a connected ecosystem where they can reach potential customers among the 1.7 billion adults, who do not yet have a bank account. Banks can therefore provide these phyigital services to the lower sections of the community; this will lead to the improvement of financial inclusion in India.

**Keywords :** 1.Customers, 2.Banking, 3.Financial Inclusion, 4.Digital Banking and 5.Phyigital Banking.

#### 1. Introduction

The perception of Indian banks is changing fast, and digitalization is main reason for this change. The Indian government is aggressively promotes digital transactions through various platforms or policies such as Digital India, Demonetization and the Unified Payment Interface. New years of competition with older models and seamless customer experience give established banks the opportunity to get their money. Banks are facing a new paradigm where the customer experience and how customers interact with their bank. Therefore, the first item of agenda for most banks in India is digitalization.

Increased cost of pressures and the need to improve efficiency have forced some banks to close branches. While their growth is likely to slow, branch banking dominates other channels in India, mainly due to security issues and lower financial literacy among customers. There are some banking services that can't be accomplished in a remote area. Human interaction enables banks to build trust, loyalty and provide related advisory services. Some customer segments still rely on traditional banking methods and are only comfortable with face-to-face interactions. With customer differentiation into various categories, banks need more than one delivery method or hybrid approach to satisfy the need of all.

Banks want to re-think the network and channels where customers interact and intend to make seamless interactions to provide an hassle-free experience. Banks are keeping track of changing activities and aim to spend more time with the customer to improve loyalty and increase sales volume. Banks will need to adopt a customer journey mindset, with an end-to-end process supported by Artificial Intelligence (AI), Robots, Machinery and Human Agents. A hybrid approach that combines digital and personal interaction will create a more responsive and less expensive distribution model. Not surprisingly, many banks look to phygital services - physical and digital mix - to cater to customer needs and expectations.

Today, physical and digital worlds are the essentials of life - at home and at work. Clearly, change is underway as these physical and digital worlds integrate or integrate to create a new source of value. Phygital redesigns the way we live, the way the business operates, and the way consumers and companies manage financial institutions.

Indian banks recognize the challenges and opportunities of phygital and invest successfully in digital transformation, emerging technologies, and data visualization techniques. Although digital banking services are gaining momentum, the consumer segment continues to favor branches and human interaction over technology.

## **2. Objectives of the Study**

1. To know the importance of phygital banking.
2. To study how phygital banking improve financial inclusion in India.

## **3. Statement of Problem**

Digital banking concepts and applications have been adopted worldwide. Although there are major benefits from digital banking, the concept of personal banking experience is still popular with bank consumers. Thus the idea of transitioning from digital bank to phygital banking involving technology and experience is to be analyzed. In connection with this recent development, the current research were conducted to know the importance of the phygital bank and to identify how it helps to improve financial inclusion.

## **4. Research Methodology**

The concept of a phygital banking is an emerging area. Thus a desk study was performed on various views of the phygital banking. These concepts are presented with the aim of understanding how they help improve financial inclusion. Current research conducted on the basis of secondary data. Data were collected from various websites related to phygital banking and financial inclusion in India.

## **5. Financial Inclusion**

Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan).

Financial Inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products (The Committee on Financial Sector Reforms, Chairman: Dr.Raghuram G. Rajan).

## 6. 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.

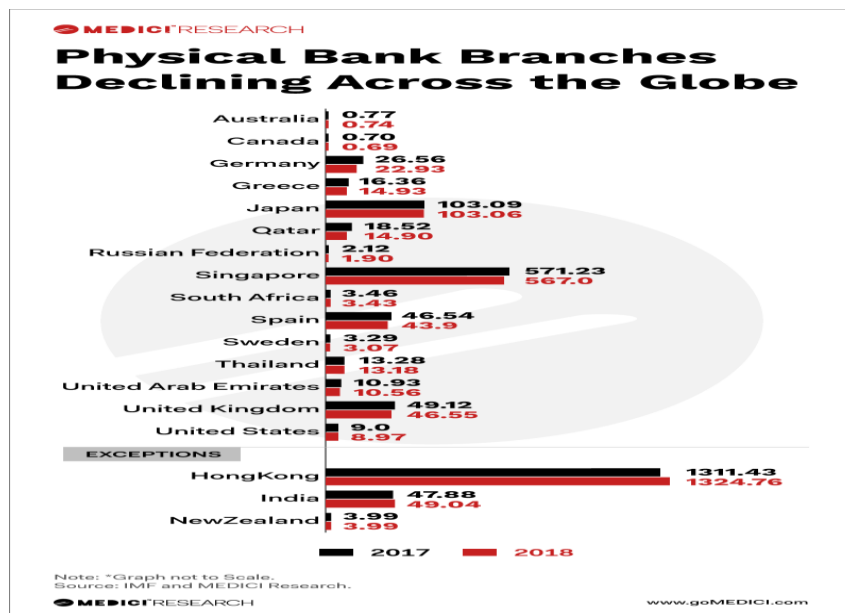
### Importance of Phygital Banking

First, the 'Phygital' bank communicates with their customers electronically on both Physical and online channels. All interactions are enabled by Digital for meaningful conversations with the customer as a bank - not as individuals or channels. In each collaboration, Phygital Bank today, embeds artificial intelligence (AI) for bots and intuitive user interface (UI) to break down cognitive, language and writing barriers in order to maximize seamless integration into every customer.

Second, just as customer interaction is digital as well as its functions. Again, this does not mean that physical operations are not required but that all operations are digital enabled and accepted by the digital way. For example, before confirming a settlement - the bank relies on digital sources such as CIBIL, Aadhar etc. In the same way, before sending emails physical documents are the use of scanned images. Wherever possible digital APIs are used to eliminate the need for physical documents. Similarly, the use of Robotic process automation with repetitive tasks, IoT in hypothecated assets, insurance validation for drones etc. helps to dramatically reduce costs and at the same time create experiences command a disproportionate market share.

Ultimately, Phygital Bank is inherently digital as an organization. Everything in an organization including its leadership, culture, how an organization works to deliver its services and how skills are accessed, acquired or developed is in line with the digital age. It is inherently to accelerate and deploy digital tools such as live dashboards, algorithms, social and crowd to replicate production and emerge faster.

### Physical Bank Branches Declining Across the Globe



Source: www.goMEDICI.com

The above figure represents that, globally the physically bank branches are declining. It can be observed that, in India bank branches are increased from 47.88 per cent in the year 2017 to 49.04 percent in the year 2018. But now in India, most of the banks already implemented phygital services across the country.

## **Banking on trust to build a strong future**

The physical bank branches have endured reliability tests for years and remain a major source of trust for millennials. 80% of millennials say they want the option of visiting a branch of the bank, just as 83% are looking for other options when talking about the whole bank. At the same time, the consequences of ignoring digital transformation and understanding can create a threat to banks. Success lies in the right marriage of digital and physical channels to build a connected, consistent, customer-centric future bank.

## **7. How Phygital Banking helps Financial Inclusion**

Since independence of our country, focusing on financial inclusion drives the economy into inclusive growth. Even though majority of the initiative taken by the Government, Reserve Bank of India (RBI) doesn't meet reach the bottom of the pyramid. Financial inclusion plays a vital role in up-liftment of weaker sections of society and low income groups into formal financial system.

The main motive financial inclusion is providing financial services at an affordable to the weaker section of the society. Connecting people with the formal financial system and it can be lead to drive the economy in a greater way. Still in India, majority of the people they didn't access to basic financial services. Based on this, am trying to explain how phygital banking helps to improve financial inclusion in India. The following points collected from various sources.

It's not just mobile and digital channels, but brick and mortar branches too continue to remain a top focus of banks. Most bankers point out that since 2011, mobile and net banking have seen a huge upswing due to improved Internet connectivity and accessibility but concur that physical branches give confidence to customers.

In fact, a strong branch network across the country is not just a requirement for public sector banks that are primarily responsible for financial inclusion, but private lenders are also catching up as they are keen on customer acquisition and increasing their deposit base. Annual plans of most banks for 2019-20 have an equal play for both digital and physical channels even as they innovate and experiment on the mobile and Internet banking platforms that have seen huge positive customer response.

"Branches are the prime channel for customer acquisition and a large branch network gives a sense of confidence to the customers. Digital channels complement branch network to help them acquire new customers and give better customer service. At Federal Bank more than 75 per cent of the branch transactions have been migrated to digital channels. The bank has a very strong pan-India presence and we haven't opened any new branches in the last three years, but may do very selectively in the coming year. Digital at the Fore, Human at the Core is our philosophy and we will continue to be phygital," said Jithesh PV, DeputyVice- President and Head of Digital, Federal Bank.

Phygital is a concept that is also used by Uday Kotak, MD & CEO, Kotak Mahindra Bank. In an interview with BusinessLine in January, he had said banks can become far more effective through the combination of digital and physical presence. Take for instance, State Bank of India's YONO app, which has become extremely popular with 73.49 lakh registered users as on March 31, 2019 and total transactions valued at ₹7,301.5 crore in the fourth quarter of 2018-19.

Similarly, ICICI Bank, which has a number of instant products like credit cards, has in recent months unveiled features such as digital and paperless sanctioning of auto and home loans. Other lenders like Kotak Mahindra Bank and HDFC Bank have added new features or upgraded their mobile banking apps.

Prakash Sundaram, Chief Strategy and Digital Innovation Officer at Fincare Small Finance Bank, said that banking is about customer experience as it can become boring around products. "Whether it is branches or customer premises that is "assisted digital" or "self service digital", retail customers expect it as hygiene without which many would never engage with a bank," he noted.

### **Adding branches**

While planning a number of digital innovations, Axis Bank's MD and CEO Amitabh Chaudhry had told BusinessLine in a recent interview that the lender has been adding 400 branches annually and intends to add 400 branches every year until it reaches about 5,500 branches. Even smaller and mid-sized lenders such as RBL Bank have seen a steady increase in its network from 265 branches as on March 31, 2018 to 324 own branches on March 31, 2019. However, public sector banks continue to rule the roost in terms of branch network. According to data with the Reserve Bank of India, PSU banks had a total of 90,821 branches as on June end, 2018 compared to a mere 28,805 branches of their private sector peers.

### **Financial Inclusion Directives to New Profitable Segments**

In most emerging markets and many developed markets, financial inclusion and lending to small enterprises continue to be primary policy objectives. This is in line as governments seek to distribute economic benefits equitably. While many banks view these directives as an additional overhead, they also present an opportunity for a bank to target new customer segments. The key to driving success in these new segments is maintaining healthy profitability despite lower margins.

A core banking system with the right capabilities holds the key for a bank to profitably target these new customer segments. The capability to create low-cost products and services that comply with regulatory directives can help a bank efficiently leverage phygital channels. Banks can then quickly go-to-market to create opportunities from financial inclusion. Systems that include out-of-the-box functionality for specialized business verticals like micro-finance can help a bank rapidly leverage specialized lending opportunities and do so quickly and profitably.

### **A 'Phygital' model to enable rural banking**

Physical models do not work in rural banks because of the high cost, and customers in rural India are not yet ready to go completely digital financially. An disruption model that combines both, or phygital collaboration, can fix real pain points for rural customers.

Rural Banking does not worked in India, much as it does in other developing countries. To achieve this, it allows to divide the domestic ecosystem into three major categories: Male-dominated agriculture value chains; cooperative activities for women such as milk, poultry, food processing etc .; and the micro-retailing ecosystem. While microfinance has served the needs of women's debt to some extent, agri-chains and small-scale retailing have largely relied on creditors. Despite being better served, rural women are largely unbanked, with low formal savings due to poor travel to remote banking branches, often 5 kilometers to their destinations, and the loss of a good work day.

About 56% of India's rural economy consists of small and former farmers, who are unable to get loans due to fluctuating incomes, agricultural cycle to EMI cycle instability and agricultural uncertainty. Village level businesses are also struggling due to dominance of cash payments, limited credit history and insufficient financial documentation. From the perspective of a financial institution (FI), high acquisition costs, regular service support coupled with a sufficient credit history exacerbates the overall difficulty in underwriting these segments. Micro FI (MFIs) limited credit experience for each loan affected the completion of JLG customers on large personal loans. For small retailers, lack of access to finance compels their SKU's holding power and turnover. As a result, for providers, this hinders their operating costs, which compels their growth.

The Business Correspondent (BC) model, which has long considered a solution for the rural banking ecosystem, has been equally successful. Low Commission rates prevented BC's operations from being the first major source of income for a BC household. In addition, the high points of cash management pain make the success of the model dependent on retailers having a lot of liquidity.

» Phygitalisation of kirana value in conjunction with FMCG / OEM and enable digital payments to merchants, via USSD or merchant assistance model, can help to complete digital loop, and enable credit access for merchants.

» phygital ecosystem data tracking can allow access to the finances of all key stakeholders. Products such as cattle finance, WC finance and equipment can be provided by data card driven tools developed by bank / MFI players, leading to a value chain digitization effort. Collaboration with utilities OEMs can also drive comparative (well-made) loans by allowing interest rates as well as promoting a secondary consensus market under a purchase agreement.

Cash income is the main reason for account dormancy and rural cash economy. By digitizing in the income of the farmers, as well as their business expenses, FIs can look at account performance, which in turn boosts the performance of the bank.

### **Benefits of Phygital Banking:**

#### **Enhanced Customer Experience**

Techniques such as in-branch video and staff tablets will support branch staff to offer an omni-channel experience to the customers. Moreover, bank branches can create self-service phygital experiences by syncing ATMs, staff devices and digital/mobile apps together for a seamless customer journey.

#### **Enhanced Employee Experience**

An omni-channel Customer Relationship Management (CRM) system can help a branch staff with ability to get single-click access to a customer's transaction history. With that knowledge and technique, branch staff can better avail the next best opportunity to sell and offer further personalized and high quality customer support. Furthermore, enhanced front-end systems and dependable cross-channel knowledge management tools help employees swiftly access the needed information.

#### **Increased efficiencies and Cost savings**

Digitization of front-office and automation through robotics, as well as new technologies that ensures faster account opening and servicing reduces processing times and save on Full-Time Equivalent (FTE) cost – both in the front and back office. With the help of this technology a customer can now avail the service instantly. It will also promote paperless technologies and reduce material cost and improve accuracy.

#### **Secure Wider Market Share**

Digital is not widely accepted in rural areas due to lack of knowledge and confidence. Phygital in banking is probably the best way to instill confidence. At a juncture, when the world discuss open banking regulations to help banks become more complaint, transparent, and secure (with respect to data), phygital banking can work as a true facilitator. Phygital banks build a connected ecosystem where they can find prospective customers among 1.7 billion of the world's total adult population, who still do not have a bank account.

### **8. Conclusion**

Phygital is the perfect combination of digital and physical services across channels and operations. Phygital contributions are vital to the success of the bank. A study by Accenture (a global management consulting and professional firm) revealed that, on average, omni-channel (Phygital) consumers generate twice as much revenue, earn 30% of sales and get one-third more customers only at the branch. Providing these omni channel customers with a phygital experience should be an integral part of the bank's distribution strategy and which helps to reach the bottom of the pyramid living in remote location.

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