

Research

# Impact of Digitalization on Public and Private Banking Sectors of India

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**Abstract**

The impact of digitalization on the public and private banking sectors of India has been transformed. The digital revolution, accelerated by advancements in technology and government initiatives, has redefined banking practices and services across the country. In the public banking sector, digitalization has played a crucial role in enhancing accessibility and convenience for a vast and diverse customer base. Initiatives such as the Pradhan Mantri Jan Dhan Yojana (PMJDY) and the implementation of Aadhaar-linked banking have significantly increased the penetration of banking services into rural and underserved areas. Digital platforms have enabled public banks to streamline operations, reduce costs, and offer a wider range of services, including online account management, digital payments, and mobile banking. This shift has not only improved operational efficiency but also enhanced customer satisfaction by providing seamless and efficient banking experiences. The private banking sector, with its more agile structure, has rapidly adopted digital innovations to stay competitive and meet evolving customer expectations. Private banks have leveraged technologies such as artificial intelligence, machine learning, blockchain, and big data analytics to offer personalized banking services, improve risk management, and enhance security. Digital banking channels, including mobile apps and online portals, have become integral to customer engagement, offering 24/7 access to banking services and minimizing the need for physical branch visits. Furthermore, the rise of fintech companies has intensified competition, driving both public and private banks to innovate continuously. Collaborations between traditional banks and fintech firms have led to the development of new products and services, such as digital wallets, peer-to-peer lending platforms, and automated investment advisory services. This synergy has expanded the financial ecosystem and improved the overall efficiency and reach of banking services.

Digitalization has profoundly impacted the public and private banking sectors in India, enhancing operational efficiencies, expanding financial inclusion, and transforming customer experiences.

**Keywords:** Digitalization, Banking, Efficiency, Competitive, Collaboration, Innovation.

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**Introduction**

The digital revolution has fundamentally transformed the banking sector worldwide, with India being no exception. The impact of digitalization on both public and private banking sectors in India has been profound, reshaping operational efficiencies, customer experiences, and competitive dynamics. The advent of digital banking technologies, including mobile banking, internet banking, and blockchain, has enabled banks to offer seamless and innovative services to their customers. This transformation is driven by the need for enhanced efficiency, better customer service, and increased financial inclusion. Public sector banks, traditionally seen as more rigid and less innovative, have had to adapt to keep pace with private sector counterparts, known for their agility and customer-centric approaches. This research aims to examine the extent and impact of digitalization on both sectors, exploring how digital technologies have influenced their operations, customer satisfaction, and overall competitiveness. By analyzing the

challenges and opportunities presented by digitalization, this study seeks to provide insights into the future trajectory of the banking industry in India.

### **Review of Literature**

The existing literature on the impact of digitalization in the banking sector highlights significant transformations in various aspects of banking operations and customer interactions. Studies such as those by Chavan (2013) and Prakash and Malik (2018) emphasize the role of digital banking in enhancing operational efficiency and customer satisfaction. Chavan (2013) discusses how digital banking services like mobile and internet banking have revolutionized customer interactions and reduced operational costs. Prakash and Malik (2018) further elaborate on the competitive edge gained by private banks through early adoption of digital technologies.

Research by Kaur and Gupta (2016) focuses on the challenges faced by public sector banks in adopting digital technologies, citing issues such as legacy systems and regulatory constraints. Similarly, Sharma (2017) highlights the efforts by public banks to digitize their services to compete with private players and meet customer expectations. The literature also underscores the role of regulatory frameworks and government initiatives, such as Digital India, in promoting digitalization across the banking sector. Studies by Joshi and Joshi (2019) and Singh (2020) provide insights into how these initiatives have facilitated the digital transformation in both public and private banks. Overall, the literature presents a comprehensive view of the advancements, challenges, and strategic responses of banks to digitalization.

### **Theoretical Framework**

The theoretical framework for this research integrates theories of technological innovation, competitive advantage, and customer satisfaction to analyze the impact of digitalization on the banking sector. Rogers' Diffusion of Innovations theory provides a basis for understanding how digital technologies are adopted and diffused within banks. This theory helps to explain the varying rates of adoption between public and private banks. Porter's Competitive Advantage theory is used to assess how digitalization contributes to the competitive positioning of banks by enhancing operational efficiencies, reducing costs, and improving customer service.

The Technology Acceptance Model (TAM) offers insights into customer acceptance and usage of digital banking services, emphasizing perceived usefulness and ease of use as critical factors. Furthermore, Resource-Based View (RBV) theory is applied to understand how banks leverage their existing resources and capabilities to implement digital technologies effectively. By integrating these theories, the framework provides a comprehensive lens to examine the multifaceted impact of digitalization on both public and private banking sectors, considering internal organizational dynamics, competitive strategies, and customer behavior.

### **Objectives and Methodology**

#### **Objectives**

1. Evaluate Digital Transformation: To assess the extent of digital transformation in public and private banking sectors in India.
2. Analyze Operational Impact: To analyze the impact of digitalization on operational efficiencies and cost structures in both sectors.
3. Examine Customer Experience: To explore how digitalization has influenced customer satisfaction and service quality.
4. Identify Challenges: To identify the challenges faced by public and private banks in the digitalization process.
5. Future Projections: To forecast the future trajectory of digitalization in the Indian banking sector.

## Methodology

This research employs a mixed-method approach, combining quantitative and qualitative data collection and analysis.

1. Literature Review: Comprehensive review of academic articles, industry reports, and regulatory publications to contextualize the study.
2. Surveys and Questionnaires: Distribution of structured surveys to customers and employees of both public and private banks to gather quantitative data on their experiences and perceptions of digital banking.
3. Interviews: Conducting in-depth research with banking officials, technology experts, and policymakers to gain qualitative insights into the challenges and strategic responses to digitalization.
4. Case Studies: Detailed analysis of specific public and private banks that have successfully implemented digital technologies, examining the processes, outcomes, and best practices.
5. Data Analysis: Statistical analysis of survey data to identify trends and correlations, and thematic analysis of interview data to extract key themes and insights.

By employing this methodology, the research aims to provide a holistic understanding of the impact of digitalization on the public and private banking sectors in India, offering actionable insights and strategic recommendations.

## Result and discussion

### Result

1. Extent of Digital Transformation: Public sector banks have made significant strides in digitalizing their services, although private sector banks remain ahead in terms of technology adoption and innovation.
2. Operational Efficiencies: Both sectors have benefited from enhanced operational efficiencies, with reduced transaction costs and improved service delivery. Private banks, however, have achieved greater cost reductions due to their earlier and more comprehensive adoption of digital technologies.
3. Customer Satisfaction: Digital banking has significantly improved customer satisfaction in both sectors. Customers appreciate the convenience and speed of digital transactions, though private banks tend to have higher customer satisfaction scores due to more user-friendly interfaces and advanced features.
4. Challenges: Public sector banks face more challenges, including outdated legacy systems, regulatory constraints, and lower investment capacities. Both sectors struggle with cybersecurity threats and maintaining customer trust.
5. Future Projections: The trajectory of digitalization suggests increasing convergence between public and private banks in technology use, driven by competitive pressures and regulatory encouragement.

### Discussion

The findings underscore the transformative impact of digitalization on India's banking sector. While private banks lead in technology adoption, public sector banks are rapidly catching up. The improvements in operational efficiency and customer satisfaction highlight the benefits of digital banking. However, the challenges faced, particularly by public sector banks, indicate a need for targeted strategies to overcome these barriers. The study suggests that ongoing digital advancements and regulatory support will continue to drive innovation and efficiency in both sectors, ultimately benefiting the overall banking landscape in India.

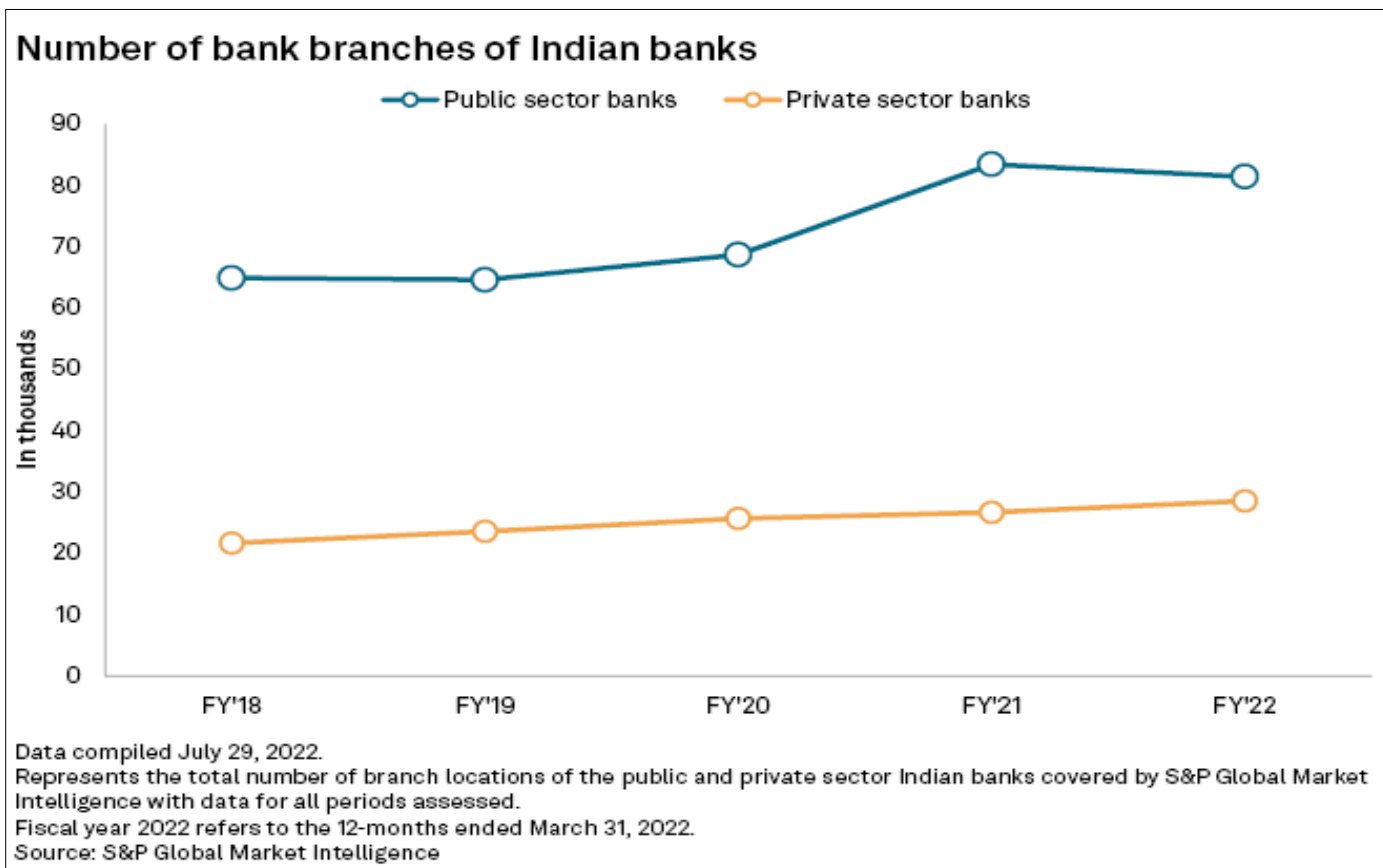


Figure 1: Number of bank branches of Indian banks

Source: S&P Global, 2022

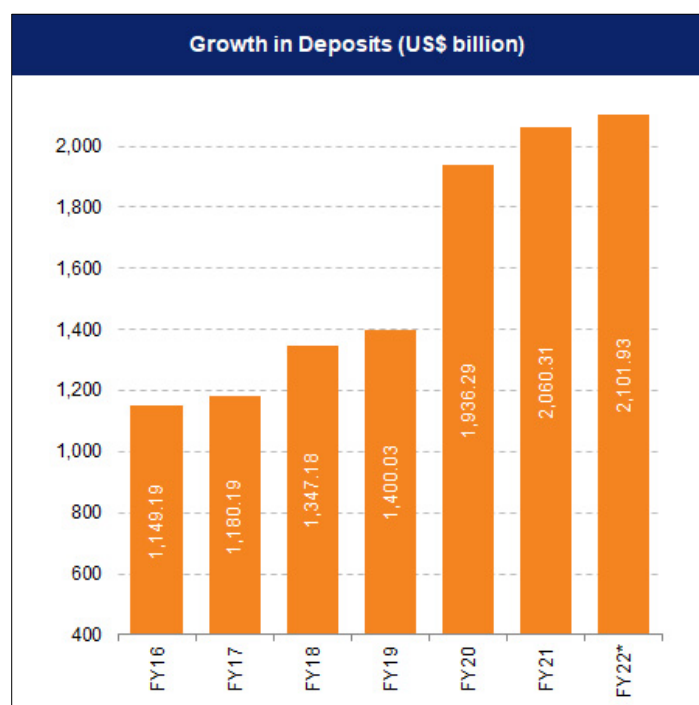


Figure 2: Growth in Deposits (Source: IBEF, 2024)

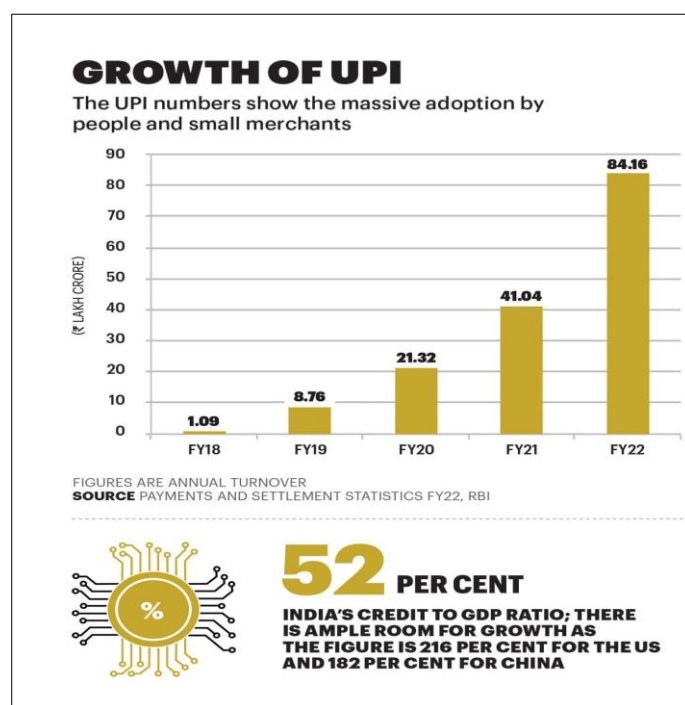
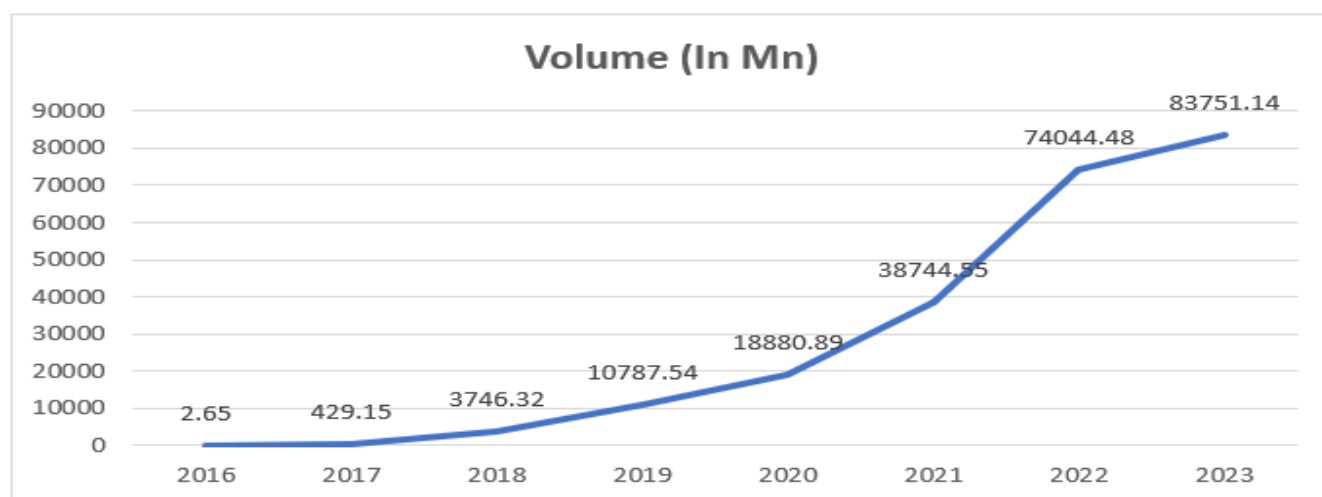


Figure 3: Growth of UPI (Source: Business Today, 2023)



**Figure 4:** Growth of UPI in India

(Source: Source: NIC, Govt of India, 2023)

### Conclusion

The research reveals that digitalization has profoundly impacted both public and private banking sectors in India, enhancing operational efficiencies, customer satisfaction, and competitive dynamics. Private sector banks, with their early adoption of advanced technologies, have set benchmarks in service delivery and operational cost reduction. Public sector banks, despite their slower start, are making significant progress in embracing digital transformation. The challenges faced, particularly by public banks, include outdated systems and regulatory hurdles, but these are being gradually addressed through strategic investments and policy support. The study concludes that digitalization is not merely a trend but a critical component of the banking industry's future, driving both sectors towards more innovative, efficient, and customer-centric models. Continued efforts in overcoming challenges and leveraging digital technologies will be essential for sustaining growth and competitiveness in the evolving banking landscape.

### Policy Implications

Policymakers must facilitate the digital transformation of the banking sector by providing supportive regulatory frameworks and incentives. Key policy recommendations include:

1. Encouraging Investments: Policies to encourage both public and private banks to invest in digital infrastructure and cybersecurity measures.
2. Regulatory Support: Streamlining regulatory processes to enable faster adoption of digital technologies, particularly for public sector banks.
3. Public-Private Partnerships: Promoting collaborations between public and private banks to share best practices and technological innovations.
4. Customer Education: Initiatives to educate customers about digital banking services and cybersecurity practices to enhance trust and usage.
5. Inclusivity: Ensuring that digital banking services are accessible to all segments of the population, including rural and underserved areas.

By implementing these policies, India can further accelerate the digital transformation of its banking sector, ensuring that the benefits of digitalization are widely distributed and that the banking sector remains resilient and competitive in the global market..

### Limitations

The research has several limitations that must be acknowledged:

1. Scope: The study primarily focuses on major public and private banks, potentially overlooking smaller regional banks and cooperative banks which also play a significant role in the banking sector.

2. **Data Availability:** Limited access to proprietary data from banks may affect the comprehensiveness of the analysis.
3. **Customer Perspective:** The study relies on survey data which might be subject to biases such as self-selection and non-response bias.
4. **Rapid Technological Changes:** The fast-paced evolution of digital technologies means that findings could quickly become outdated, necessitating continuous monitoring and research.
5. **Geographical Focus:** The research is centered on the Indian banking sector, and findings may not be directly applicable to other countries with different regulatory and economic environments.

Addressing these limitations in future research can provide a more comprehensive understanding of the impact of digitalization on the banking sector..

### **Future Research Directions**

Future research can explore several areas to build on the findings of this study:

1. **Comparative Studies:** Conduct comparative studies between different countries to understand the global impact of digitalization on banking sectors.
2. **Longitudinal Analysis:** Perform longitudinal studies to track the long-term effects of digitalization on banking operations, customer satisfaction, and financial performance.
3. **Inclusive Digital Banking:** Investigate the impact of digitalization on financial inclusion, particularly in rural and underserved areas.
4. **Technological Innovations:** Explore the potential of emerging technologies like blockchain, artificial intelligence, and machine learning in transforming banking operations.
5. **Regulatory Impacts:** Analyze the effectiveness of different regulatory frameworks in facilitating digital transformation and ensuring cybersecurity.

By pursuing these research directions, scholars can provide deeper insights into the ongoing digital revolution in the banking industry and its broader implications for the global financial system..

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