

INNOVATIVE PRACTICES IN THE BANKING SECTOR WITH REGARDS TO DIGITAL PAYMENTS – A REVIEW OF LITERATURE

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Abstract

The Internet had its origins in the form of DARPNET during the Cold War period between the USSR and the USA. Ad the aftermath of World War II, the Internet continued its steady progress to grow into several forms and dimensions. One such dimension happened to be in Information and Technology (IT) and Computer Science Engineering (CSE). Given the proliferation of the internet, there were several avenues of growth in various domains and areas. Chief among them was finance and the banking sector. The banking and the finance sector especially in India had a slow and steady growth, however, after the incorporation and proper utilization of resources at all levels by the various government mechanisms. As technological advancements happened, the skills and the capabilities of the labour as well as innovations also happened in parallel. This research paper focuses on various aspects concerning innovative practices in the banking sector by emphasizing the newest innovations and advancements in the world of digital payments.

Keywords: Banking, Finance, Commerce, Innovative practices, Digital payments, Literature reviews

INTRODUCTION

1.1 Basic notions:

Several changes have occurred in the lifestyle of the masses due to the services offered by Information and Technology (IT). Information Communication tools coupled with digitalization have ensured that there are constant and new advancements in the fields of banking, commerce, economy, finance, etc (Slozko, O., and Pelo, A., 2015).

The introduction of technology in the banking and finance sectors transformed lives as well as the transactional models from cash-based to digital payments. This paved the way for a new kind of payment system which came to be known and was popularized as the e-payment system (Roy, S., and Sinha, I., 2014).

The digital payment systems have changed and made users adapt to the latest innovations across various sectors (Odi, N., and Richard, E.O., 2013). The concept of digitalization in payment changed the payment system and the modes of payment from coins, and notes to digital currency.

The adoption of digital currency was swift, and smooth as it facilitated faster, more convenient, and was deemed beneficial to individuals, and organizations at large across geographies and space. The digital payment system also engaged and ensured that several e-payment systems facilitate and provide easy services to the end users (Premchand, A., and Choudhury, A., 2015). In the recent past, it is the digital payment that is ruling the roost by proving easy and efficient transactions between the beneficiaries across sectors, and geographies.

1.2 History and Evolution of Digital Payments in the World:

Scholars across geographies traced the origins and the evolution of digital payments in the world. Digital payments have their origins in money. Money as a concept existed since prehistoric times, in the form of a barter system and a modus operandi where it existed as a currency for the trade of goods, and services amongst people of all walks and facets of society and between societies. In the contemporary world, money has different values at various places for various reasons. For research scholars, money exists as a function of exchange of value systems for various commodities towards the concept of transactions [Abdillah, L. A. (2020); Ali, R., Barrdear, J., Clews, R., & Southgate, J. (2014); Carr, M. (2007)].

Ledgers were used to maintain records. They became complex after some time. New versions of payment methods and currencies made their mark. This ensured created of a robust system that slowly revolutionized the FinTech Industry [Eswaran, KK (2019); Kristensen, L. B. K., & Solvoll, M. (2019)].

Research studies highlighted the working and features of digital payment systems [Orman, I., Teker, D., & Teker, S. (2022)].

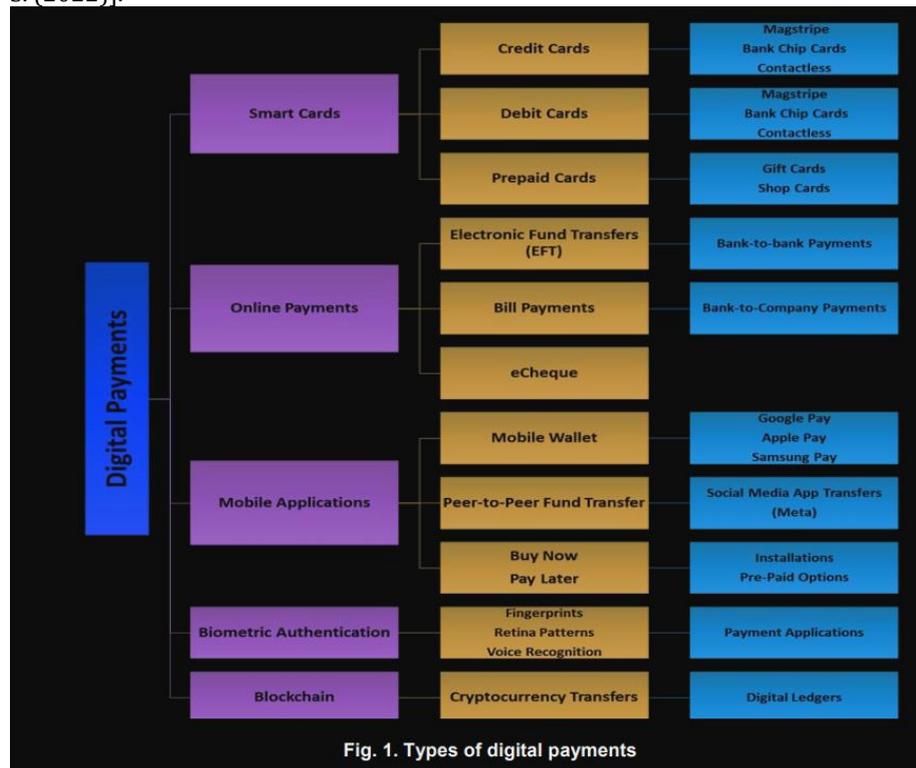


Fig. 1. Types of digital payments

The newest concept regarding Digital Payments is mobile wallets.

II. REVIEW OF LITERATURE

In the fast-paced world of finance, the banking sector and financial institutions are embracing innovative practices to enhance the efficiency, security, and convenience of digital transactions.

1. Contactless Payments and Near Field Communication (NFC):

NFC enables secure communication between devices nearby, allowing users to make transactions. Banks worldwide are integrating NFC into their cards and mobile applications, allowing customers to choose the payment method that suits them best.

2. Biometric Authentication:

In the pursuit of heightened security, banks are increasingly turning to biometric authentication methods to perform digital transactions. Fingerprint recognition, facial recognition, and iris scanning have emerged as reliable alternatives to traditional PINs and passwords. Biometric authentication not only offers a more secure means of identity verification but also simplifies the user experience.

3. Blockchain Technology:

Banks are leveraging blockchain to streamline cross-border transactions, reduce settlement times, and minimize fraud risks. Smart contracts, a feature of blockchain, enable the automation of payment processes based on predefined conditions. This not only reduces the need for intermediaries but also ensures the accuracy and efficiency of financial transactions.

4. Open Banking and API Integration:

The concept of open banking, driven by the desire for greater collaboration and innovation, has paved the way for enhanced digital payment services. This collaboration results in the development of user-centric applications, such as personal finance management tools and payment initiation services. The seamless integration of APIs ensures a more interconnected and dynamic digital payment landscape, offering customers a diverse range of choices and services (He, Z., Huang, J., & Zhou, J. 2023).

5. Credit Scoring Methods (CSM):

AI and ML algorithms contribute to the development of credit scoring models, allowing banks to assess the creditworthiness of customers more accurately. This not only streamlines the lending process but also expands financial inclusion by providing credit to individuals who may not have a traditional credit history (Alpaydin, E., 2016).

III. CONCLUSION

With the daunting and humungous growth of the internet and newer technologies daily, we can see the exponential growth and evolution of the digital payments interface across various mobile applications, and platforms. Several major e-commerce giants have already started to embrace digital payment systems through the introduction of their payment gateway for their target audience and attract them with several key offers such as cashback, gifts, and vouchers. Some key examples are Amazon Pay; and Flipkart Pay Later. The presence of UPI apps is a boon for the growing market and user base who adopt and use digital payment interfaces. With the acceptance and usage of UPI systems of India across the globe we can surely foresee a bright future for the scope of digital payments and more innovations in this very domain or realm of payments.

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