

LEARNING THE DIFFERENCE BETWEEN ONLINE AND PHYSICAL BANKING SERVICES THE CUSTOMER CHOICE

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ABSTRACT

The banking Services in India play a pivotal role in everyone's lives. It has brought about a significant change in society by establishing itself as an alternative to traditional approaches, such as digital services. As we all know, with the evolution of society, the use of mobile phones and internet services has given consumers more options for engaging with services from home.

Purpose of Study

The study focuses on understanding and highlighting the consumer preferences between online and offline banking services, and understanding the background of such preferences.

Objective of Study

1. To have a comparative study of the usage and need of online and offline banking services.
2. To thoroughly understand the level of customer satisfaction with both modes
3. To find out which mode is preferred and why.

Research Questions

1. Do customers prefer online or offline banking?
2. What are the key reasons responsible for their choices?

INTRODUCTION

India's banking industry has undergone significant changes over the last several decades. A remarkable tale of adaptability, invention, and modernisation, the history of the Indian banking industry spans from lengthy lines at conventional brick-and-mortar banks to the convenience of banking with a single swipe on a smartphone. India's online and offline banking services have changed over time due to a combination of economic liberalisation, regulatory changes, technical advancements, and shifting consumer expectations.

Any economy depends on banking since it serves as a conduit between the general population and financial organisations. From the sluggish, paperwork, and heavy procedures of traditional banking to the blazingly quick digital experiences of today, India's banking services have seen a dramatic change. This change is a result of national aspirations for financial inclusion, legislative reforms, and a shift in consumer behaviour, in addition to technological advancements. In the past, Indian banking began as rudimentary offline services delivered through physical branches, with all transactions being completed manually. For basic services like cash withdrawals, passbook updates, and check clearances, customers had to stand in long lines. Systems that improved accessibility and efficiency.

Customers' interactions with banks were significantly disrupted with the advent of internet banking. Banking used to be a location-based activity, but thanks to the internet, smartphones, and mobile applications, it is now a service that is available whenever and wherever you choose. Digital tools, including UPI, online banking, mobile banking apps, and digital wallets, have made banking safer, quicker, and easier in recent years.

Online banking's introduction, which completely changed how consumers interacted with banks, was the true disruption. Mobile applications, cellphones, and the internet transformed banking from a location-based activity to a service that is available anywhere, at any time. Digital tools like digital wallets, online banking, mobile banking apps, and UPI have made banking easier, faster and safer in the modern era. For consumers in remote areas, those who are not digitally literate, or those who prefer in-person contacts for complex financial services, offline banking remains essential despite the boom in digital use. Consequently, in order to cater to a wide range of customers, India's banking sector now uses a hybrid model that combines digital and physical offerings.

Early Stages and Origins of Offline Banking

Banking in India was entirely offline and manual before the digital age. It was centred on physical infrastructure, in-person contacts, and record-keeping on paper. To complete even the most basic operations, such as making a deposit or withdrawal, customers had to go to the closest bank branch, frequently standing in long lines. No debit cards, no internet, no ATMs, and most definitely no mobile banking apps were available. The banking process was cumbersome, time-consuming, and frequently unavailable to broad swaths of the populace.

Banks' staffers manually entered all banking transactions into the ledger. In order to open a savings account, a customer had to complete a number of forms, present identification, and wait days, even weeks, for processing. Physical documents were transported via mail service or carried between locations for duties like fund transfers and cheque clearance, which caused major delays.

Passbooks for customers served as the main tool for monitoring account activity. The teller updated the passbook by handwritten or using dot-matrix printers each time a customer came into the bank. Because account balances were not visible in real time, clients had to visit the branch in person to find out how their finances were doing.

Furthermore, banks' reach was primarily urban. Formal banking services were frequently inaccessible to residents of small towns and villages. A significant dependence on unofficial credit sources, including moneylenders, which frequently charge exorbitant interest rates, resulted from this lack of accessibility. In many parts of rural India, "banking for all" was still a pipe dream.

The nationalisation of 14 large commercial banks by the Indian government in 1969 marked a dramatic shift. The purpose of this action was to bring banking into lines with the more general objectives of social and economic development. The decision was motivated by the realisation that small businesses, the rural poor, and the agriculture sector were not being sufficiently served by private banks.

Additionally, the bank's reach was primarily urban. Those who lived in tiny towns and villages frequently had limited or no access to official banking services. This inaccessibility resulted in a significant dependence on unofficial credit sources, such as moneylenders, which frequently charged exorbitant interest rates. In many rural parts of India, the concept of "banking for all" was still a pipe dream. Among the goals of banks nationalisation were:

1. Encouraging financial inclusion by giving loans to high-priority industries, including small enterprises and agriculture.
2. Extending the branch network into semi-urban and rural locations
3. To lessen economic inequality, more control over the delivery of credit is required.

When banks were nationalised, they were urged and even required to open branches in isolated and underdeveloped areas. Between 1969 and the 1990s, the number of rural bank branches grew quickly, from about 1800 to 35000. Even while access was better, the banking processes themselves were still mostly manual and conventional.

Typical offline banking procedures at this stage were as follows:

1. Opening an account involves several trips to the branches, presenting a valid ID, and providing proof of address.
2. Deposits and withdrawals: Tellers handle cash; ledgers are manually entered.
3. Depending on the issuing bank's location, the clearance of the cheque took a few days.
4. Loan applications need in-person meetings with bank officials as well as the physical submission of collateral documents and evidence of income.
5. Customers had to return to the branches for any questions or concerns; customer support was only available during business hours.

Many services were not available outside of the customer's short working hours, which were from 10:00 AM to 3:30 PM. Financial services were further delayed by banks staying closed on public holidays and weekends. The procedure was labour-intensive, error-prone, and slow. Banking became ineffective due to human error in ledger entries, document loss, and a lack of real-time data. However, offline banking established the legislative and institutional framework for India's financial system in spite of these drawbacks.

DIGITALISATION AND FUNDAMENTAL BANKING SOLUTIONS

A turning point in the history of Indian banking occurred in the late 1980s and early 1990s. Indian banks started making the switch from manual, traditional operations to computerised, technology-enabled procedures at the time. Even though customer-facing services were still mostly offline at the time, this transformation greatly altered how banks functioned behind the scenes and set the stage for the future digitisation of banking.

Background: The Need for Change

Up until the 1980s, Indian banks were primarily run manually. Customer assistance could only be provided at the branch level, and all financial transactions were documented in physical ledgers. However, it became evident that the banking system's current infrastructure was insufficient to accommodate growing business activity and rising consumer demands as the Indian economy started to expand, particularly following the liberalisation measures started in

1991. The Narasimhan Committee, which was established in 1991, was crucial in identifying the pressing need to update the Indian banking sector. Among the many comprehensive banking sector banks, better financial health and, above all, the use of technology to increase efficiency and transparency.

Computer Use in Banking

Some private and international banks started experimenting with computers in their back offices in the late 1980s, mostly for record-keeping and accounting purposes. Employee unions first opposed this because they were concerned about automation-related job losses. Nonetheless, public sector banks also began to recognise the need for computerisation as transaction volume rose and consumer expectations shifted. Information Technology use in banking was promoted by the Reserve Bank of India(RBI) and the Institute for Development and Research in Banking Technology (IDRBT). Banks started computerising their branches gradually, beginning with simple tasks like interest computation, transaction processing, and ledger management

Core Banking Solutions(CBS): Revolutionising

During this time, the introduction of Core Banking Solutions(CBS) was one of the biggest technological developments. All bank branches are connected to a single server or database via CBS, a centralised system. No matter where they created their account, bank customers could now manage their accounts and access banking services from any branch of the bank.

Before CBS, clients were “tied” to their home branch, meaning that all business had to be done there. CBS greatly increased the flexibility and efficiency of banking.

Key attributes and advantages of CBS were as follows:

1. Banking Anytime, Anywhere: Clients could visit any branch to cash out, deposit money, or get information.
2. Centralised Data Management: By keeping all client information in one database, fraud was decreased and duplication was removed.
3. Faster Transaction: Automated processing sped up transactions in one database, fraud was decreased, and duplication was removed, decreasing human error.
4. Customer experience improved as a result of faster, more seamless, and more uniform services across all branches.

Better Risk Management: Integrated systems and real-time data made it possible to monitor financial health and regulatory compliance more effectively.

The internal workings of banks were revolutionised by CBS, even though the majority of clients still had to visit the branches or ATM. The distinction was that clients no longer had to wait days for certain services, and these visits were now more effective.

CBS Phased Implementation Banks did not immediately embrace CBS. The phase of the transition often started with Branch pilot programs in cities, roll-out to branches in semi-urban areas and cities gradually, and complete deployment throughout the structure.

The vast majority of India's largest public and commercial banks had fully adopted CBS by the early 2000s. Punjab National Bank of India (SBI), HDFC Bank, and ICICI Bank were among the banks spearheading the shift.

The RBI and IDRBT's Role

The RBI was instrumental in accelerating the shift by establishing computerisation deadlines and norms, assisting banking employees with training initiatives, and encouraging bank cooperation via common networks such as RTGS (Real Time Gross Settlement) and INFINET (Indian Financial Network).

Since its establishment by the RBI in 1996, the IDRBT has developed into a hub for innovation in banking technology. It aided in cybersecurity framework improvement, software solution standardisation, and bank technology adoption guidance.

Affecting Banking Services

Customers were not instantly introduced to online banking via CBS and computerisation, but they did lay the ground for it. It became theoretically possible to provide services via mobile phones and the internet once branches were digitally connected and records were centralised. The following backend infrastructure was necessary for the launch:

1. Online banking websites,
2. Apps for online banking,
3. Networks of ATMS and debit cards,
4. First RTGS, then NEFT, and finally UPI.

Across their whole network, banks could now provide standardised, integrated, and seamless services.

In conclusion, the advent of Core Banking Solutions and computerisation signalled the start of India's transition to a contemporary banking economy. In addition to cutting operational expenses and eliminating inefficiencies, it established a solid technological basis for the ensuing digital banking revolution. More sophisticated online banking systems emerged in the following years as a result of the enormous internal change, even if the consumer interface was still mostly offline throughout this time.

The development of financial services in India, from conventional offline systems to extremely advanced digital platforms, is a potent illustration of the nation's wider technological, social, and economic change. India has seen a dramatic change in the way its people see, use, and access banking over the last few decades. The advancement has been significant and consequential, ranging from standing in long lines at branches and painstakingly updating ledgers to immediately transferring payments via mobile phones.

Despite its speed and reach limitations, the early stages of offline banking established the institutional framework for a formal financial system. After nationalisation in 1969, the banking industry's reach was greatly expanded, particularly in rural areas, and social banking was prioritised over profit. Nevertheless, the method was labour-intensive, slow, and prone to errors due to its lack of automation and technology.

Computerisation and Core Banking Solutions, which offered centralised client data and operational efficiency, were introduced in the next phase. Supported by the Reserve Bank of India and the Institute for Development and Research in Banking Technology (IDRBT), this change was sparked by the Narasimham Committee's recommendations. With CBS, the groundwork was established for more scalable, real-time time and networked service. Even though the majority of consumer interfaces were still offline, the digital back-end architecture was prepared to handle any future advancements.

With the advent of internet banking, first via internet banking portals and then mobile apps, the true revolutions got underway. The democratisation of digital banking was achieved in 2016 with the ground breaking launch of the Unified Payments Interface (UPI).

Even still, offline banking continues to be very valuable, particularly for older people, those living in rural regions, and those who are less tech-savvy, despite the rapid rise in digital adoption. Customers frequently favour face-to-face connections for tasks that require individualised counsel, such as business financing, asset management, or dispute resolution. The result of this coexistence is a "physical" paradigm in which banks provide both digital and physical touchpoints to meet the various needs of their clientele.

Digital adoption was hastened by the COVID-19 pandemic, which forced even the most hesitant consumers to use online banking. Rapid adaptation was made by banks, who introduced video KYC, contactless services, and chatbots, driven by AI to provide virtual client support. The experience showed how adaptable, robust, and inclusive banking must be in India's future. Going forward, the Indian banking industry is ready to adopt cutting-edge technologies like big data, blockchain, and artificial intelligence, which will further transform the banking experience. In the meantime, a fintech partnership and neo banks will keep pushing the boundaries of the industry and innovating while providing tech-savvy customers with individualised and user-friendly services.

In summary, the shift from manual to digital banking in India reflects not only advances in technology but also a broader emphasis on customer-centricity, accessibility, and financial inclusion. Using the advantages of both offline and online systems to build a strong, inclusive, and flexible banking ecosystem that benefits all Indians, irrespective of their location, age, or socioeconomic standing, is the way of the future.

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