

# Customers' motivation to adopt digital banking: A case study of HDFC Bank in Kolkata

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## ABSTRACT

The Indian banking sector is undergoing a radical change from branch banking to digital banking. Both public and private banks in association with government are presently carrying out intense campaign to bring the users of banking system under digital banking process. However, while over the last few years a large section of the customers have adopted digital banking, many are still reluctant to do so. Therefore, to achieve results, it is imperative to understand the motivations underlying the consumers' adoption of digital banking. This study aims to contribute towards this end to some extent. In this study, the motivations towards adopting digital banking were identified in case of four branches of HDFC Bank in Kolkata. The findings depict that net banking is primarily used for making various enquiries, online purchases and money transfer. The identified reasons why many customers have not adopted digital banking till today include non-awareness and ignorance regarding the digital banking procedures, skepticism regarding security aspect, reluctance to change long-time habit of manual banking and utilizing branch banking to socialize and pass time in case of retired persons.

**Keywords:** Consumer motivations, Digital Banking, HDFC Bank, Indian banking sector.

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## I. INTRODUCTION AND JUSTIFICATION OF THIS STUDY

The process of computerization gained pace with the liberalization, privatization and globalization of Indian economy in 1991-92. A lot of reforms were introduced pertaining to digitalize the service industry in India. Information technology is considered as the key driver for the changes taking place around the world. Indian banking services logically started following this technology by introducing e-banking services to help its customers in a quicker and convenient way. The conventional way of treating banking services in India was slow, not cost-effective and created barriers to rapid economic growth. The introduction of digital banking has revolutionized the banking sector and modified the whole procedure of simple bank transfers. It has facilitated the customers assisting them to check their account details, pay online bills and transfer money from one account to the other in a faster way. This has helped the end user to enjoy a methodical financial life. Banks in India have witnessed a radical change from 'conventional banking to convenience banking' in the post-liberalization period. Today they are poised for 'digital banking' at a rapid pace. The buzzword in India today is creating a cashless future. Buoyed by the successful acceptance of demonetization, the Government of India is now pushing digital transactions. The traditional banking industry is thus facing the impact of digital technology. To remain contemporary and relevant, several commercial banks have already started aggressively innovating digital products and services for customers. The bankers are now offering innovative and attractive technology-based services and products such as 'Anywhere Anytime Banking', 'Tele-Banking', 'Internet Banking', 'Web Banking', 'Net Banking', 'Mobile Banking', etc. to their customers to cope with the competition.

Financial inclusion has been a challenge for India, as it could not help majority of Indian population to achieve financial literacy. In India still, 41.3 percent of households do not avail banking services. Amongst those who avail banking services, a significant percentage remains out of the reach of the digital banking services. This is despite the various advantages of digital banking and several attempts by the government as well as banks to promote digital banking. Keeping in view the current aim of the banking sector in India to include its customers under digital banking processes, it is imperative to identify the underlying reasons why some customers are reluctant to adopt digital banking. The objective of this study is to identify the underlying motivations of adoption of digital banking. While some studies have been carried out towards this end in the context of developing nations, scant studies have been reported in Indian

context. Additional studies are solicited on this issue to help the banking sector to develop a complete understanding of the motivations of adoption of digital banking by its customers. This study aims to fulfill the above objective. In this study, an exploratory study was carried out amongst 297 existing customers from four branches of HDFC Bank in Kolkata to identify the reasons why some customers do not adopt digital banking while some others adopt it. Therefore, the objective of this study is stated as – ‘**To understand the motivations to adopt digital banking – a case study of the existing customers of HDFC Bank, Kolkata.**’

## II. REVIEW OF LITERATURE

Digital Banking may be stated as the adoption of various existing and emerging technologies by the banks, in concert with associated changes in internal operations as well as external relationships for providing superior customer services and experiences effectively and efficiently [1]. Today, aspects such as enhanced customer satisfaction and value through unified customer experiences, faster output, infinite banking volumes, financial inclusion, operational efficiencies, scale of economy etc. are being sought after, by leveraging digital banking. Banks have already started evaluating the reduction in number and size of branches. In addition, the investment in digital technology to replace more expensive human interactions is also being considered. This includes, but not limited to, tablets for universal bankers, automated teller machines and digital kiosks to facilitate account opening and customer inquiries [1]. There is also a shift from traditional banking to online banking system amongst those who avail banking services [2]. The primary reasons of this transfer are perceived usefulness, perceived ease of use, security and privacy provided by online banking. According to [3], in most developing countries, Internet banking is still in its early stages. Only a few banks are developing such services while others merely use the web to provide information about products and services. Thus, it can be concluded that bank customers are still not accustomed to using electronic channels to manage their financial affairs. However, for optimum utilization of banking resources in India, it became obvious to introduce electronic medium to expedite rapid growth and to save money. Internet banking is changing the banking industry and is having the major effects on banking relationships. Banking is now no longer confined to the branches where one has to approach the branch in person, to withdraw cash or deposit a cheque or request a statement of accounts. In true Internet banking, any inquiry or transaction is processed online without any reference to the branch (anywhere banking) at any time. Providing Internet banking is increasingly becoming a "need to have" than a "nice to have" service.

### Digital banking services at HDFC Bank

HDFC Bank has seen more than nine-fold growth in mobile banking transactions in recent years. According to HDFC sources, its share of internet and mobile banking transactions was 71% in FY 2016 as compared to 63% in the previous fiscal. The share of branch transactions too has gone down to 11%. The bank is followed by ICICI Bank, State Bank of India and Axis Bank with respect to mobile banking transactions. ICICI Bank had transactions worth Rs 2,224.97 crore, followed by SBI with Rs 1,586.4 crore and Axis Bank with Rs 1,440.61 crore worth of transactions. HDFC Bank's Internet Banking service provides up-to-the-second account information. Net banking lets the customer manage his/her account from the comfort of his/her mouse - anytime, anywhere. Net Banking services provides access to account information, products and other services (including transactions of non-financial and financial in nature) as advised by the Bank from time to time to the customers through the website of the Bank. Net Banking Services also include the services for Demat account, Credit Cards and loan on the website of the Bank. The HDFC Bank web site also features two versions of a demo facility - one "interactive" and the other "guided" - making it possible for even internet illiterates to get comfortable with its services. On the downside, however, 'registration' for the service involves downloading of a form that needs to be posted/delivered to any of its branches - not exactly "web savvy" as we would call it. Also, the form itself requires Adobe Acrobat Reader to be installed and the file size will exceed 5.5 MB, which translates roughly into an hour or more of on-line time. Its 3-question FAQ page also assumes a high level of computer knowledge from users.

A number of studies aimed to identify the motivations of adoption of digital banking. In a study by [4], time, cost savings and freedom from place have been found as the main reasons underlying online banking acceptance. Though online banking offers many benefits, globally majority of customers are still not using online banking channel. [5] stated ignorance in information technology as a prime reason for this. Also, skepticism regarding security issue [6] and the ease of use of digital banking processes [7] have been reported to influence adoption of digital banking. Perceived ease of use is the extent to which a person believes that using a particular system will be free of effort. It affects the consumers' intentions to use online banking [8]. According to [9], if consumers perceive internet banking to have perceived usefulness, then the consumer is more likely to perceive internet banking as easy to use and reliable and influence adoption of internet banking. According to [10], adult customers are more reluctant to join new technologies or methods that might contain little risk. It is also important to note that some adult customers are interested in online banking; however, they do not possess the necessary computer literacy to conduct it. In addition banks should design the website to concern security and privacy issues. [11] reported that in a study by Internet and Mobile Association of India (IAMAI), it was found that the people are not doing financial transactions on the banks' Internet sites in India because of reasons such as security concerns (43%), preference for face-to-face transactions (39%), lack of knowledge about transferring online (22%), lack of user friendliness (10%), or lack of the facility in the current bank (2%). Research on consumer attitude and adoption of internet banking depicted that there are several factors predetermining

the consumer's attitude towards online banking such as person's demography, motivation and behavior towards different banking technologies and individual acceptance of new technology. It has been found that consumer's attitudes toward online banking are influenced by the prior experience of computer and new technology [12]. The adoption of online banking forces consumers to consider concerns about password integrity, privacy, data encryption, hacking, and the protection of personal information [13].

### **III. PROCEDURE**

To understand the motivations of adoption of digital banking, HDFC Bank was taken as a case in this study. A survey was carried out amongst a sample of 297 existing customers from four branches of HDFC Bank in Kolkata. The respondents were tapped either at the bank's premises or by telephonic interviewing. This was done with the cooperation of some management interns at the Bank's branches. The respondents were initially screened whether they adopted digital banking. Those who responded in affirmative were enquired regarding the motivations for using digital banking and the prime applications that they prefer. The respondents who reported that they did not adopt digital banking were enquired why they did not adopt digital banking. Responses were collected through personal or telephonic interview using open-ended enquiries. An exhaustive list of the identified factors is presented in this paper.

### **IV. FINDINGS**

In the studied sample, 237 respondents (80%) reported that they use non-branch banking. These include online banking, mobile banking and banking through teller machines. About 178 customers (60%) use online banking and mobile banking. This indicates that a majority portion of the Bank's customer segment have adopted online banking and other modes of non-branch banking. Regarding their motivations to adopt digital banking, the following typical reasons were identified that motivate customers to use net banking:

1. It enables checking bank balance at any point of time, anywhere, conveniently.
2. It enables making request for cheque book at any point of time, conveniently.
3. It enables payment of utility bills anywhere at any point of time, conveniently.
4. It enables transfer of funds to third party at any point of time, conveniently.
5. It helps download accounts statement anywhere at any point of time, conveniently.
6. It enables checking credit card balance and payment of it, easily.
7. It helps recharge of mobile (prepaid mobile) at any point of time, conveniently.
8. Opening and liquidation of fixed deposit and recurring deposit anywhere at any point of time, conveniently.
9. It enables operation of Demat account anywhere at any point of time, conveniently.
10. Submission of Form 15G and 15H can be done easily.

The identified prime applications that the customers prefer in digital banking are:

1. Transferring fund anywhere in any bank account through NEFT, IMPS, RTGS.
2. Payment of utility bills, mobile bills, DTH, and Data card bills etc.
3. Recharging of DTH, mobiles etc.
5. Credit and debit card payments as well as blocking of these cards in case of loss or theft.
6. Ticket booking
7. Account balance enquiry
8. Recurring Deposit and Fixed Deposit booking
9. Cheque book request

Regarding the reasons why many customers have not adopted digital banking, while a few were found to lack awareness, many stated that in spite of being aware about digital banking, they lacked the requisite orientation and capability to handle digital banking processes. However, it is interesting to note that many consumers who had the requisite knowledge about digital banking did not adopt digital channel of banking. From our survey, the following typical reasons were identified that deter this customer segment to use digital banking:

1. To some customers digital banking is not relevant or required as they are carrying out banking operations smoothly in manual mode as per their long time habit.
2. Security issue regarding digital banking is found to be a common and important concern. This is influenced by their low confidence in ensuring foolproof handling of transactions at all times as well as regular media reports of hacking and stealing from bank accounts.
3. Some elderly respondents stated that they prefer manual banking as part of their long habit and visiting banks enable them to pass time as well as socialize at bank premises.
4. Some business persons stated that they are skeptical about losing their business privacy on using net banking.

## V. CONCLUSIONS AND RECOMMENDATIONS

Keeping in view the Government's policies and the intense campaign of the banking sector to bring the users of banking system under digital banking process, it is today imperative to understand well the motivations underlying the consumers' adoption of digital banking. This is particularly relevant because while over the last few years a large section of the customers have adopted digital banking, many are still reluctant to do so. This calls for extensive studies to identify the motivations of adopting digital banking and the factors that deter from doing so. This study aims to contribute towards this end to some extent. The findings depict that net banking is primarily used for making various enquiries, online purchases and money transfer. Regarding the issue why many customers are not using digital channels, some were found to lack awareness and knowledge about use of digital channels. This is similar to the finding by [10]. However, while these researchers found this factor only in case of elderly customers, we found this factor as a reason amongst customers across different demographics. Interestingly, many customers who had knowledge about the use of digital banking were found not using this channel. The prime reasons identified were security issue and skepticism about business privacy. The finding regarding security issue is similar to the finding by [13]. Some elderly customers stated that they preferred branch banking because that enables them to pass time by socializing with fellow bankers. It also gave them a feeling of working for the family and facilitated physical movements. Some customers stated that they were reluctant to change their banking habits as manual banking has been their long time habit and they faced no trouble in doing so. These findings have not been reported in earlier studies.

Keeping in view the above-mentioned findings from this study, it is obvious that the prime Endeavour of banks should be to make digital banking very user friendly [7]. This should include allaying any security issues. Banks in partnership with the government should sustain intensive campaigns to develop orientation and knowledge regarding digital banking. Such campaigns should be merged with the projects working towards financial inclusions. Strict monitoring of cashless trading practices amongst traders is also expected to promote digital practice among consumers. The banks should focus on selected commonly used applications only rather than exposing the customers to varied apps. This is expected to ameliorate confusion and fear regarding digital banking amongst the customers. Finally, banks should expect a mixed banking behavior in the mid-future time period where customers will depict both non-branch banking as well as branch banking. Therefore long-term campaigns should be planned to promote adoption of digital banking.

## VI. LIMITATIONS AND SCOPE OF FUTURE RESEARCH

This study has been carried out as a case of HDFC Bank only, which is a private sector bank. The study was carried out amongst the existing customers of four branches in Kolkata. Future studies should include more representative sample and should include multiple banks pertaining to both private and public sectors. Also, the motivations of adopting digital banking should be precisely studied as per demographics of consumers. This study did not relate customers' motivations with the digital facilities of the banks and their attitude towards the banks' digital performance and consequent convenience of using digital channel with that bank. Future studies are needed to identify factors that influence the customers' motivations to use digital channel of banking.

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