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Challenges and Way Forward in a Transitional Period of Banking: Conventional to the Digital Era of Bangladesh

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Abstract

This article narrates the current challenges experienced by Bangladesh's banking structure while developing the new generation banking system. They discuss subtopics such as technological infrastructure, security solutions, financial literacy, policies and legal frameworks, and customer cues towards embracing and using technologies. The research model critically discusses the above challenges and their interdependencies with the help of current literature and real-life data. The above sections of this research offer a comprehensive framework to address this change. This paper identifies key policy recommendations to address these challenges, such as technology adoption, improving cyber security, raising financial literacy levels, modifying the existing legal frameworks progressively, and increasing customers' acceptance of digital banking solutions. By adopting these proposals, Bangladesh can subdue the challenges of digital transformation in banking and attain the potentiality for financial enfranchisement and economic emergence.

Key words: Digital banking, Bangladesh, Transition, Challenges, Cybersecurity, Technological infrastructure, financial literacy, Customer adoption

Introduction

As the global environment in banking for the past several years has been evolving at a very fast pace the world over Bangladesh too is in the process of getting itself digitalized. Shift from conventional banking practices to opt for other easier techniques is a welcome move that not only provides large opportunities within the ministries of banking, general financial advancement, higher level of financial intermediary as well as obtaining optimum efficiency, but also involves risk. It will also attempt to make a specific effort in discerning these barriers and in providing a course for their surmountal. When the structure of an economy like Bangladesh is in this phase of transition there are a few challenges that the banking industry will encounter and these challenges are threat from the cyber security, issues related to understanding of customers' needs and requirements, and banking regulation. However, the constant and predominant challenges and problems do not fail to present the

possibilities for establishing the newer and the superior model of the banking industry. Considering all these issues and having shown the readiness to overcome these shortcomings, Bangladesh has the potential to leverage the opportunities of technologies to deliver the future-proof banking services to the citizens.

Literature Review

Digital banking can also be described as the process through which banking services are offered through any of the features such as mobile device, internet banking, or any of the characteristics of a digital wallet, among others. Some of the factors include better and improved access to internet for banking services, increased ownership of smart phones and lastly government support in policies for banks especially the financial technology banks. However, in the context of Bangladesh, the major influence towards the adoption of digital banking can be attributed to the government of Bangladesh's ambitious ICT-based development plan namely 'Digital Bangladesh.'

Bangladesh banking industry is currently undergoing a change yet again to a new phase of transformation, shifting from traditional physical branches of a bank. Mentioned below are some of the factors like advancement in technology, changes in customers' preference and the government's support to the digital economy. While this change has some promises of changing the financial systems and status of different people for the better, an unfavorable side is also inherent to it, and should therefore be well managed to ensure a successful change.

Several authors have done research on knowledge concerning the shift from the conventional business systems to the online business delivery systems with specific reference to banking. However, in the current context of the overwhelming amount of literature review studies, to the best of our knowledge, there is no specific study recently conducted that focuses on the literature only from Bangladesh. Existing research has highlighted the following key aspects: Studies indicate that the following main elements have been identified in previous research activity:

The World Bank (2018) observed that digital financial services enhance financial access hence benefiting the unbanked and underbanked clientele. Thus, according to the **Boston Consulting Group (2019)** it can be stated that digital banking results in potential cost reduction for banks and customers, as well as revenue growth opportunities.

Research have pointed out the possibilities of digital banking to improve on the access to financial services, increase efficiency of transactions, effectiveness in service delivery and making customers' experience a better one. For example, the **World Bank study conducted in 2019** demonstrated that DFC could bring positive effect on poverty and growth in developing countries.

The following papers review the development, evolution, risks as well as the advantages of digital banking with special reference to the situation in Bangladesh. For instance, **Rahman and Uddin (2019)** conducted a study to assess the driver of using mobile financial services (MFS) by clients in Bangladesh which showed that perceived usefulness, ease of use, and perceived trust had great impacts on the use. In another study conducted by **Ahmed and Khan in 2020** aimed at examining the level of financial inclusion using MFS, the correlations showed that there is a positive relationship between MFS usage and number of users of mainstream formal financial services.

But the literature review has also highlighted few challenges that restrict the Bangladeshi people from adopting the digital banking at a large scale. The difficulties range from low levels of information technology (IT) integration and illiteracy among the population, insufficient communications

infrastructure, security threats, and policy issues. **Hossain and Islam (2018)** also pointed out that to have proper solutions of these problems is also crucial for effective implementation of digital banking programs.

Most of the scholars have established the several factors saying that c with the adoption of the digital banking such as the inadequate infrastructural support and security threats, low level of adoption of digital services by the population, and the policies. Published report of the **Bangladesh Bank (2020)** identified a particular need for should establish a sound cybersecurity environment so that digital money related services cannot be manipulated and hacked easily.

While the opportunities of digital banking are rather diverse, the process of shifting from the conventional model to digital banking has numerous' issues. One of the difficulties of collaborating with the consumer base in the digital environment is insufficient levels of digital competence. **Barani et al. (2019)** established that a further 34% of Bangladesh's population possesses minimum basal digital literacy skills as per the Bangladesh Bureau of Statistics. Because of this, individuals caught in this cycle struggle to embrace the use of digital banking and contribute to the formation of a digital divide.

Other difficulties include inadequate physical facilities, especially in the rural areas. In Bangladesh, another discovers held in the year 2020 by the International Telecommunication Union reveal that three out of five populations are connected to the internet. The failure of internet connection can reduce the deployment of the acquisition of digital banking and lock out a large population.

Another significant factor that affects the digitalization of banking is the issue of security. The incurrence and utilization of the various digital channels has been on the rise and so has cybercrime and fraud. According to the **Bangladesh Bank (2020)**, another research also found that cyber threats targeting banks in Bangladesh have risen by 25 percent in the year 2019. This goes further to hint at the necessity of enunciating adequate measures and precaution to secure customers' information and their money.

While adapting to the new type of banking, it is necessary to recognize the difficulties of making a transition from traditional to digital type of banking. According to the existing literature, **Karim and Chowdhury (2017)** have pointed out that severe limitations in legal and regulatory environment as the big challenge for the development of digital banking in Bangladesh. It was said that the current rules and requirements were not adequate enough to cover details within modern technologies and their threats and opportunities as well. Similarly, **Hasan and Rahman (2016)** also suggested the subject of investment in the ICT infrastructure that includes Internet connectivity as well as other security-related issues as essential prerequisites for the development of digital banking.

Lack of Technological Infrastructure - This is a big challenge that Bangladesh faces to turn into digital banking, especially in rural and remote areas. Uneven internet connectivity to rely on, frequent power supply fluctuations, as well as the unavailability of digital tools all hamper the demand for usage of digital banking services across the board. The complexity and cost of digital banking That is why, without robust infrastructure, digital banking will never be able to fully spread its wings to soar. - Rahman (2019)

As financial transactions go digital, the threat of cyberattacks, accompanying data breaches, and other forms of fraud are more real than ever. As per Chowdhury (2020) strong data protection laws, regular

security controls and robust cybersecurity practices become main defenses to an organization, ensuring customer data protection and retaining consumer trust over these digital banking channels.

The research study also reveals that the literacy rate and financial literacy along with digital skills of the Bangladesh people, especially those living in the rural areas, is still very low. This knowledge gap therefore becomes a challenge in the right utilization of the digital banking services. According to **Ahmed (2018)**, there is a paramount need for holistic designed and implemented education concerning financial matters, as well as mastering digital technologies to make customer proper decision.

Banking through digital technology is still not so popular back in Bangladesh but the regulation regarding this is still in the developing phase. It is important to underline that the need for a coherent and unambiguous legal system is as relevant today as before, as this is the only way to meet new challenges, foster new developments, and, at the same time, protect consumers. **Hossain (2021)** noted that sound policies and regulations that meet the diverse needs of the population require concerted effort between the regulatory bodies, the financial institutions and the technology providers.

Customers adopting digital banking platforms is an important determinant that requires increased trust among the customers. The need to maintain the established order is pivotal to most customers since they are used to the conventional ways of banking and may not be quick adopters of the modern innovations due to several reasons such as Security, privacy and the general learning effect. **Khan (2019)** stated that they have ensured simple interfaces for the users, clear communication, and constant customer support to help establish credibility and promote adoption among more users.

Bangladesh government has taken specific measures including introduction of National Payment Switch Bangladesh (NPSB) and Mobile Financial Services (MFS) for promoting the use of digital banking. A study by **Policy Research Institute (PRI) (2018)** regarding the effect of MFS on Financial inclusion established a positive, huge increase in the ability of the public, especially the under-banked population, to access the requisite services.

Research Method

This blended research model was used in this study where the collection of data qualitatively as well as quantitatively for analysis was conducted. Primary data mainly in qualitative form from interview questionnaires administered to industry players, policymakers, and the users of the banking services. The secondary data was gathered through surveys conducted with the administration of questionnaires and through the analysis of secondary data in the form of reports by industry-related associations and data provided by governments.

The research model examined the following key challenges in the transition from conventional to digital banking in Bangladesh: Considering the research model, the study investigated the follow challenges associated with the shift from conventional to digital banking in Bangladesh:

Technological Infrastructure: Availability and necessity of technological requirements, excluding such factors as Internet connection and Cell Phone penetration as specific aspects of technology, were the crucial factors in the case of digital banking. It also assessed the current technology status in Bangladesh and their needs in terms of innovations.

Cybersecurity: It was also evident that with the advancement of the internet and increased usage of the same in executing transactions, including by the banks, the threats from banking fraudsters and hackers had also gone up. This study reviewed different initiatives that the analysed banks of Bangladesh have implemented in cyber security and evaluated the results.

Financial Literacy: For digital banking services to foster effective functioning, there has to be an element of financial literacy among citizens; however, this is avoidable given the various strategies that can be implemented to counter the problem. Evidently, this paper assessed the level of financial literacy found in Bangladesh and outlined the measures required to advance the extent.

Regulatory Framework: Such dynamics and uncertainties could mean that the traditional mode of regulation could have been ill-equipped to manage the kind of risk associated with digital banking. The investigation also concentrated on the existing state of the regulation in Bangladesh and gave indications of amendments that may be essential at present.

Customer Adoption: This need meant that its customers had to buy from it in digital banking's voyage of becoming a success story. It also used a research question to dispatch and analyse the customers' engagement with digital banking in Bangladesh.

Policy Review: Payment and Settlement Systems in Bangladesh

Payment and settlement systems offer the fundamental framework on which a country's financial operations rest as they enable the transition of funds between the financial sector, the corporate, and the customer. Another important document is Bangladesh Bank Order 1972; the PSD is accountable to it in charge of encouragement of innovations in payments systems and maintaining regulations for the correct operation of the financial system.

The PSD was set up in 2012 to enhance effective and appropriate payment, clearing, and settlement infrastructure that are relevant to the Banks with effective Technologies. The activities it performs can be divided into those administrative functions such as regulation, policy making, and licensing; legal and regulatory; mobile money and banking services; supervision functions.

Operation

- Bangladesh Automated Cheque Processing Systems (BACPS): Since 2010, an optimum service of Cheque Imaging and Truncation has enabled BACPS for electronic presentment and payment on paper-based instruments.
- Bangladesh Electronic Funds Transfer Network (BEFTN): Established in 2011, BEFTN is designed to make paperless, electronic interbank funds transfer, to facilitate several transactions including payroll, remittances, bills payment and many others.
- National Payment Switch Bangladesh (NPSB): Established in December 2012, NPSB was created to ensure the Banks interoperability in the account and card-linked services such as ATM, POS and IBFT (Internet Banking Fund Transfer) services.
- Real Time Gross Settlement System (RTGS): BD-RTGS, launched in June 2015, deals with high value and real time payment processing for both the banks as well as the corporates.

Regulation, Policy, and Licensing

- Legal and Regulatory Function: Advising and coordinating the efficient operation of the payment system in terms of participants' relations, PSD provides and establishes regulations and rules. A Payment and Settlement Systems Act is under process.
- Mobile Financial Services (MFS): Also in the year 2011, the MFS known as bKash has been introduced and now it has become the largest MFS market in the world that provides several services at home and abroad such as cash-in/ cash-out, person-to-person, person-to business etc.
- Payment Service Provider (PSP) and Payment System Operator (PSO): PSD grants license to persons providing PSPs or PSOs in agreement with regulatory rules and management of risks.

Regulatory FinTech Facilitation Office (RFFO)

- Based in Belarus, it was founded in 2019 to facilitate FinTech start-ups' ideas, as well as offering a regulatory protective shield in terms of engaging in at least a pilot project for service delivery at an accessible price.

Payment Systems Oversight

- According to the provisions of the Bangladesh Bank Order 1972, Payment Systems Oversight thus involves the oversight of payment systems with regards to their safety, efficiency and soundness. Through this, it is able to gather information, monitor the levels of compliance, assess areas of weakness or improvement to ensure efficient control of risks.

Bangladesh has advanced payment and settlement systems with some modifications and incorporation of more advanced technologies. The legal structure provides reliability and safety of such systems simultaneously with the promotion of new developments to satisfy contemporary trends of the economy.

Challenges of Transitioning to Digital Banking in Bangladesh

Banks perception:

Due to the digitization of banking services in Bangladesh, many issues occurred that challenged the banks. On top of these, the emerging threat of Information technology/security remained the most pressing issues concerning bankers, with the threat touch-skills-imaging at alarmingly 60%. While banks tried to work towards developing their technological enhancement, they were faced with the herculean challenge of overhauling IT security with 54% bankers tagging it as a major issue of concern. However, there was the advent of digital banking, but the last headlight again posed a challenge with regards to customer acceptance with 77% of the bankers that have concerns about the rate at which clients would accept digital channels. Furthermore, 34% of the banking sector respondents revealed the difficulties with the regulation and compliance as a severe problem because hasty changes in regulations create a tough framework in compliance with them. Thus, during this period of uncertainty, the banking sectors of Bangladesh had emerged at the crossroads of innovation and risk management which was, on the one hand, empowering institutions with the possibilities of digitalisation, and at the same time exerting pressure on them to provide protection to their operation and customers.

Customers perception:

Modern customers' attitudes are complex and depend on several factors, as the recent studies indicate when it comes to banking services. A rather worrisome 89% of customers remain concerned about their chances of getting trapped in a cyber-fraud while transacting online. To eliminate such risks, banks should respond by effectively addressing the security question while at the same time introducing customer awareness campaigns. The third digital banking issue under concern by the customers is the failure rate expected to be 76% that comes with having to rely on an efficient internet connection and a gadget to perform a banking operation. However, this access is not complete due to poor infrastructure, especially in some parts of the country, which is a big challenge. Furthermore, 73% of respondents noted the necessity of digital competency, which proves the absence of sufficient educational campaigns. The constant concerns of customers are trust and security issues, which comprise 79 percent of the customers hence the need to work more on enhancing trust and security. Besides, access to technology is highlighted by 54% of programs, but 43% of participants reported problems in accessibility for vulnerable groups that show the necessity for effective solutions in the banking sphere.

The debate formed in the FGD revolved around the analysis of the difficulties observed during the development of digital banking in Bangladesh. The target population was bankers and customers from various backgrounds such as the following. It was a session meant to make a collection of data to study the current state of deployment of e-banking services in the country.

Section 1: Banks' Perspective:

Respondents stated that there are several key issues that arose during the digitization of banking:

- **Cybersecurity Concerns:** They also elaborated on the need to protect the client's information during virtual risks and fraud at the same time. Large figures have however been documented to be spent on top security in the sporting arena.
- **Technological Infrastructure:** The renewal of technological systems turned out to become a major issue observed in banks. They also found that altering the structures and activities toward the advanced change was expensive and deserving professional attention.
- **Customer Adoption:** This made authors realize that there is a growing concern on digital banking, but not all customers are comfortable in transacting with their banks online. Nowadays, the banks are heavily spending on huge awareness campaigns to promote the literacy level and confidence in the digital initiatives.
- **Regulatory Compliance:** Thus, the matter of obeying the ever-evolving regulatory laws becomes a complex challenge for the banks. All the rules that currently exist must be adhered to in order not to betray clients, as well as to save the financial market.

Section 2: Customers' Perspective:

Customer participants shared their concerns regarding digital banking:

- **Security:** Consumers spoke of their concerns and fears for privacy as well as their cash in the new or cyber world. Measures against cyber threats must be prioritized and institutional security should be brought up to par as a means for gaining the customers' confidence.

- **Connectivity Issues:** Lack of steady internet connection in certain areas is a causeway to the effective implementation of digital banking. Another critical factor is the dependability of the connections through which various customers can attain access to the digital platforms.
- **Digital Literacy:** Today, a sizable number of people, especially those at the older part of their lives, hardly possess the kind of digital competencies required to fully transverse through the digital banking platforms. To achieve this, it is necessary to promote education and training to help close this gap and promote equality.
- **Trust and Transparency:** Some of the challenges from the customers included lack of trust and transparency in online banking services. To retain the customer's trust, it is crucial to clarify costs, the offered scope of work, and the measures taken to secure the data provided by the customer.

Discussion:

The flow of the discussion led the participants to the formulation of practical solutions and ways of cooperating about the revealed issues. Other themes include the roles of customers, banks and regulators and such subjects as cybersecurity, education and infrastructure.

Regarding the research questions, the FGD was useful in identifying perceived challenges and worries of the participants concerning the shift toward digital banking in Bangladesh. It would be imperative to have the stakeholders come together to effectively deal with such issues. Bangladesh can focus on the security of Cybertech and the improvement of technology in the country, increase the awareness about IT and abide the laws of the country and hence, ensure to develop the digital banks and make the credit facilities easily available for maximum amount of people in Bangladesh.

Way Forward:

Addressing the challenges of transitioning to digital banking in Bangladesh requires a multifaceted approach, integrating various strategies and initiatives: The Bangladesh context has indicated some of the key issues involved in the gradual change towards the digitalisation of banking services and efforts and, therefore, it is apparent that any shift would need a combination of the following strategies and measures:

- **Investment in Technological Infrastructure:** Spending on proper construction and development of internet facilities, constant availability of power, low-priced cheap electronic devices, particularly in those areas where a sizable number of individuals have no access to a computer or the internet. This will assist in expanding the uptake and demand of Fintech services valid anywhere in the digital economy.
- **Strengthening Cybersecurity Measures:** There must be strong securities for customers, this should also be implemented, security checkups should be done at intervals, more importantly customers should be advised on how to safely use the internet. Security emerges for customer data and protection of the companies and those financial instruments from cyber threats.
- **Enhancing Financial Literacy:** Promoting financial literacy and implementing financial literate campaigns and designs and being involved more in the spread of knowledge of e-

banking among the customers. In other words, and more accurately, the proposed hypothesis can be formulated as follows: The customers with education degree are better equipped with the necessary financial literacy to make rational choices in terms of personal finance protection and management.

- **Developing a Robust Regulatory Framework:** Implement actions to develop accurate and lawful rules regarding new and emerging and potential issues, solution ideas, and upcoming consumer protection strategies. The concept of the clarity of rules within the context of digital banking is positively verified with stability/trust within the digital banking environment.
- **Building Customer Trust:** Create clear interfaces, tell the customers precisely how everything works, provide much-needed assistance to the customers and have highly reliable and trustworthy transaction protocols. Building a rapport with the customers when in business is crucial to familiarize the customers with the business when it comes to online purchasing.

Hence, if Bangladesh implements each and all of these measures at a time, it will be feasible to stabilize every hardship linked to the operations of digital banking as well as reap on all the opportunities inclusive in improvement of banking systems, enhancing facets of financial inclusion, and the consequent development of economy.

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