

REDEFINING BANKING IN THE DIGITAL AGE: AN ANALYTICAL STUDY ON AI-DRIVEN TRANSFORMATION IN INDIA

Avinash Daryani

Research Scholar, GLS University

Dr. Krupa Bhatt

Faculty, GLS University

ABSTRACT

Since 2010, there has been a shift in Indian banking practices—from traditional brick-and-mortar banking to a digital transformation. Existing research suggests that banking is now more cost-effective thanks to digitalization, which has saved time, money, and labour. This paper examines the transformation of the Indian banking system since 2010, focusing on technology, Artificial Intelligence, and Machine Learning, and on how customer experience has been improved through payment modes such as UPI and through chatbots. With a focus on digitalization and the effects of regulations, consumer adoption, and technological disruption, this paper presents the evolution that occurred and discusses the challenges that require policy actions, innovations, and ethical governance. A number of suggestions are given to policymakers, regulators, and institutions so that growth continues to be sustainable, inclusive, and secure.

Keywords: *Digital transformation; Banking; Artificial Intelligence; Machine learning; Chatbots; UPI.*

1. Introduction

Indian banking has experienced a revolution in the last decade, since 2010, from conventional model systems to technology-based systems that utilize technology, Artificial Intelligence (AI), Machine Learning (ML), and chatbots (Rajbhar, 2025).

Where Indians needed to keep track of their banking documents in the past, today the system has made everyone experience paperless banking. Existing research suggests that banking is now more cost-effective thanks to digitalization, which has saved time, money, and labour. As a result, banks are more effective and have a wider reach than they did in the past (Haralayya, 2021). With the assistance of UPI (Unified Payments Interface), India's banking industry is renowned for being a pioneer in the development of “model banking of the future” (Rajbhar, 2025). AI has been the revolutionary powerhouse for the banking sector. It is critical for analyzing and securing data, enhancing the overall banking experience, and can quickly process customer data to identify patterns and provide insights (Rajbhar, 2025). This can lead to better decision-making for bankers and policymakers. There also seems to be a positive correlation between green banking initiatives (paperless banking) and the digital shift in the banking sector (Chandrasekaran & Narayanan, 2024).

With a focus on digitalization, the effects of regulations, consumer adoption, and technological disruption, this paper examines the evolution that occurred after 2010. It includes a special section on the efficacy of chatbots and AI/ML.

2. Literature Review

2.1 Early Origins and Global Adoption of Digital Banking

Initial efforts at internet and electronic banking in the late 20th century are where digital banking got its start. For instance, in 1994, the Stanford Federal Credit Union was among the first financial organizations in North America to provide its members with complete online banking services (England, 2022). Similarly, in Sweden, several banks embraced internet banking in the late 1990s; Sweden and Finland are often cited among the earliest adopters due to high internet penetration and progressive digital financial regulation (UKDiss.com, 2018). These early adopters acted as precedents in terms of first-hand usage of the interface, transactions, security tests, and regulations.

Internet and electronic banking adoption were uneven across nations, with early high adoption concentrated in those with robust digital infrastructure, high internet penetration, and proactive policy support. For example, in 1996, Estonia launched its first online bank (Estonian Banking Association, 2002; Eriksson et al., 2005). Gaps in the usage of internet banking can be explained by variations in technology, broadband and mobile penetration, regulatory frameworks, and socioeconomic factors, according to systematic reviews and cross-country analyses (Hanafizadeh et al., 2014).

The research by Tan and Teo (2000) showed that the intention to use internet banking is significantly influenced by perceived behavioural control and attitude factors rather than social influence; intentions were found to be influenced by relative advantage, compatibility, feasibility, and risk, as well as by perceptions of government support for electronic commerce and confidence in using such services. Takieddine and Sun (2015) show that internet access acts as a complete mediator between the effects of socioeconomic and technological factors on the diffusion of internet banking, and that national culture plays a significant moderating role. Meanwhile, Ochuko et al. (2009) indicate that “security” is the most important factor, since with low levels of security the adoption rate would be lowest, no matter how high government priorities, literacy rates, internet users, and ISP competition are.

2.2 Change in the Past Decade (2015–2025): Technology, Platforms and Infrastructure

Since around 2015, digital banking has been revolutionized by a number of converging trends: mobile banking, real-time payment systems, open banking/APIs, fintech competition, regulatory encouragement, and growing user trust. The introduction of the Unified Payments Interface (UPI) by the National Payments Corporation of India (NPCI) beginning in 2016 has been a primary component of this change, allowing for real-time, interoperable bank-to-bank payments through mobile devices (ETGovernment.com, 2024). By the end of 2023, the annual transaction value had increased significantly to about ₹150 lakh crore (\$2 trillion), from between ₹18 and ₹21 lakh crore (roughly \$240 billion) in 2019—an impressive growth of 730–860% over five years (Mathew et al., 2024). It has simplified smooth digital transactions for over 50 million merchants and 300 million customers. In India, UPI was responsible for 75% of all retail digital payments by October 2023 (ETGovernment.com, 2024).

3. Research Methodology

This study has a descriptive and analytical research design, based entirely on secondary data sources. The focus is to analyze the growth, efficiency, and issues of digital banking and the role of Artificial Intelligence (AI) and chatbots in the banking industry; no primary data were gathered. Rather, the study uses published academic works, industry reports, and institutional data to synthesize trends and insights (Kothari, 2014).

4. Analysis and Discussion

4.1 Overview: Global Digital Banking Trends (2015–2025)

There has been development in the banking sector with reference to AI, ML, chatbots, digital wallets, and cybersecurity (Munira, 2025). Systematic reviews of the last decade show that banks prioritized mobile apps, cloud services, and ML integration to remain competitive and to enable partnerships with fintech firms. Real-time payment facilities and open banking frameworks have been central enablers of fintech competition and new service models across many advanced and emerging economies (Ngo et al., 2025; Munira, 2025). Academic literature also indicates that banks' digital strategies have shifted from channel expansion to platformization and ecosystem play, where data sharing and third-party integrations are core competencies.

4.2 India's Structural Transformation: Payments, Infrastructure, and Scale

With the joint efforts of the government and citizens, the volume of digital payments (NACH, UPI, NETC, debit/credit cards, net banking, etc.) increased from 2,071 crore in FY 2017–18 to 18,737 crore in FY 2023–24, a growth of 44% (Department of Financial Services, n.d.). The NPCI introduced UPI in 2016, making instant mobile payments at scale possible and secure, signalling the start of a complete change in the payments ecosystem in India (NPCI, n.d.). In October 2024, UPI processed 16.58 billion financial transactions, amounting to ₹23.49 lakh crore, a 45% growth compared to 11.40 billion in October 2023 (Kumar et al., n.d.). With 632 banks linked to its platform, UPI's growth in the Indian market enables the country's main objective of going cashless and easing payments.

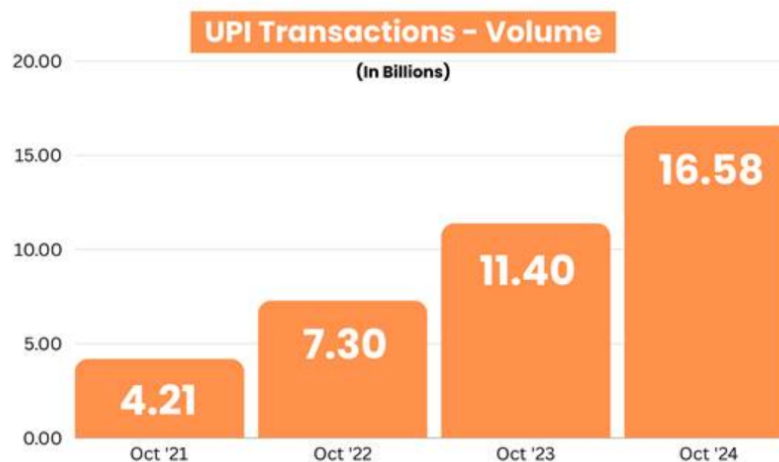


Figure 1. UPI Transactions — Volume (in billions), October 2021–2024

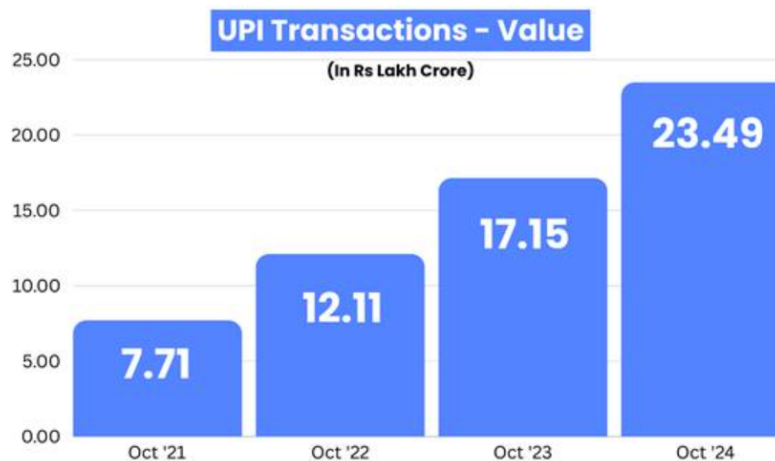


Figure 2. UPI Transactions — Value, October 2021–2024

Source: NPCI.

4.3 The Arrival and Scale of AI/Chatbots in Banking (Global and India)

In recent years, especially between 2017 and 2023, there has been a substantial increase in the usage and installation of AI-based chatbots or virtual assistants by retail banks. In India, for example, approximately 78.8% of scheduled commercial banks had adopted conversational AI/virtual assistants by mid-2023, higher than in 2017 (The Hindu Data Team, 2024). Outside India, studies such as the Deloitte (2025) report show that chatbots are now commonly used by many US banks for routine queries, though user satisfaction and trust remain varied. Moreover, research by Pal and Singh (2019) shows that while banks are investing heavily in chatbot technologies, their features remain relatively limited.

4.4 AI and ML in Fraud Detection and Cybersecurity

AI and ML, with their power and capability to detect patterns, are also revolutionizing fraud detection with respect to cybersecurity. AI models can learn to identify suspicious and genuine transactions by analyzing large data sets (Flinders et al., n.d.). AI tools for preventing fraud can track unauthorized or stolen payments and monitor blockchain transactions to identify deviant transactions, such as rapid money transfers. The use of unexpected, unknown, or untrusted data by users may result in cyber hazards (Gai et al., 2018). The difficult problems include a range of issues brought on by hardware shortages, algorithm designs, and data limitations; both hardware upgrades and algorithm improvements can be used to increase computational efficiency.

4.5 Measured Benefits: Speed, Availability, and Operational Efficiency

According to secondary research, chatbots give banks improved operational metrics by reducing response times for routine queries and offering round-the-clock availability (Nguyen & Le, 2025; Deloitte, 2025). Industry analyses show that automation of regular and routine customer interactions through AI and chatbots reduces handling costs and enables human agents to focus on complex, value-added tasks (Accenture, 2024; Deloitte, 2025; HDFC Bank, 2023).

4.6 Effectiveness in Customer Experience and Continuance Intention

Peer-reviewed research finds that chatbot service quality dimensions—such as reliability, responsiveness, accuracy, and usability—are positively linked with customer satisfaction and intention to use chatbots

(Nguyen & Le, 2025). Research by Marak, Pahari, Shekhar and Tiwari (2025) suggests that performance benefits such as timely query resolution and savings can attract new users, that the user interface should be friendly and appealing, and that it should address security and privacy concerns. However, research also shows that low trust, poor conversational quality, and perceived privacy risk significantly reduce the possibility of repeat chatbot use, especially among developing-market populations (Ngo et al., 2025; Bansal et al., 2024).

4.7 Challenges, Failure Modes, and Evidence of Risk

Despite quick adoption, the performance of AI chatbots in banking remains uneven. Several studies highlight recurring failure patterns that lead to user dissatisfaction and loss of trust, escalations to human agents, repetitive loops, and miscommunication.

Misclassification of customer intent. A common technical limitation arises from Natural Language Understanding (NLU) errors, in which chatbots do not interpret user queries correctly. According to Brandtzaeg and Følstad (2018), even though chatbots have the potential to improve adaptability, they still fail multiple times—one reason being the challenge of designing for open-ended questions and conversations. Trivedi (2019) points out that customers expect banking chatbots to be user-friendly and to answer their questions as quickly as possible; if they don't, their experience is negatively impacted. Mogaji et al. (2021) found that although age and technological experience play a bigger role in making chatbots easier for users, perceived security, responsiveness, and expertise were especially important.

Inability to handle multi-turn complex queries. In banking, chatbots are usually very good at one-turn interactions (like checking balances and changing passwords), but they have trouble with multi-turn or contextual conversations (like negotiating loans or resolving complaints). According to Hill, Ford and Farreras (2015), human–chatbot communication was more inappropriate and lacked much of the vocabulary found in human-to-human conversations. Pal and Singh (2019) concluded that the accuracy of virtual assistants or chatbots used by banks is not high with respect to India's diverse population.

Repetition loops, systemic response errors, and inadequate escalation protocols. Zhang, Liang and Wu (2024) stated that major chatbot failure reasons were poor integration with human agents to solve escalated queries, personal-information inquiries, pretentious responses, and loop responses.

5. Recommendations and Suggestions

The digital transformation of the banking sector in India has brought many opportunities, yet it also has complex challenges that require policy actions, innovations, and ethical governance. Based on secondary-data analysis and literature, several recommendations are presented for policymakers, regulators, and institutions to ensure that growth remains sustainable, inclusive, and secure.

1. **Creation of a human–tech balance.** While automation and AI-driven tools are rapidly increasing, complete replacement of human interaction may not be ideal. Indian banks should aim for a hybrid service model that retains the human touch where empathy, negotiation, and ethical judgment are required; these tools should act as support tools, not decision-makers.
2. **Integrating financial inclusion with digital literacy.** Digital transformation cannot be fully successful unless accompanied by financial and digital literacy. Banks, educational institutions, and local governments should educate rural and semi-urban populations about safe digital banking practices, training older and less tech-savvy citizens to confidently use online platforms.

3. **Reimagining customer-centric design through predictive banking.** Future banking success is likely to depend on the ability to anticipate and predict rather than react to customers' needs. Several banks have started predictive customer-experience frameworks that integrate AI, ML, and behavioural analytics to offer personalized products, credit options, and risk-management solutions.
4. **Promoting collaboration between banks and fintech startups.** An established structural partnership between traditional banks and fintech startups can create synergy by leveraging each other's strengths: banks bring trust, compliance, and infrastructure, whereas fintechs contribute innovation and data-driven solutions.
5. **Inaugurating AI-based green banking practices.** Sustainability must be part of the digital transformation process. Indian banks should incorporate AI and ML to gauge environmental sustainability reviews that assist in identifying and facilitating green lending. Predictive analytics can assess the carbon footprints of funded projects, so banks can give preference to green loans and track sustainability indicators; an AI-based rating index would serve as a tracking tool for projects' relative green financing.

If implemented effectively, these recommendations may help transform the Indian ecosystem into one that is technologically advanced, well-governed, and inclusive. Policymakers should see digital banking as more than just a way to improve operations—they should see it as a way to bring people together and build the nation. Finally, the next decade of Indian banking should be not only digital but also inclusive, transparent, and equitable.

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