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An Analytical Study On Impact Of Digitalization Of Retail Banking On Audit And Compliance

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KEYWORDS

digitization, audit, compliance, focus, customer escalation, adherence, etc.

ABSTRACT

Purpose:

The main purpose of this paper is to find the impact of digitization of branch banking on audit and compliance in branch.

Method:

The impact of digitization on audit and compliance is evaluated with respect to the following five audit and compliance performance criteria viz., Branch audit rating, FOCUS, Customer escalation, No. of critical requests, Compliance Adherence Score. The data for the above-mentioned parameters is gather for a three years pre-digitization period ranging from 2014-2015 to 2016-2017. Similarly, the post digitization data is gathered for three years period from 2017-2018 to 2019-2020. The pre-digitization and post-digitization averages of all the parameters are compared with the help of paired t-test.

Results:

The result of paired sample t-test reveal that, since. P-value obtained in case of all the parameters is less than the alpha value of 0.05 ($p<0.05$), there is significant impact of digitization of bank on audit and compliance.

Conclusion:

The result of the hypothesis testing reveal that there is significant impact of digitization of banks on audit and compliance. All the parameters i.e. Branch audit rating, FOCUS, Customer escalation, No. of critical requests, Compliance Adherence Score have shown a significant improvement post digitization.

1. INTRODUCTION

Information technology is quickly becoming a crucial tool in consumers' lives across generations (Mehrotra, 2014). Evidence suggests that in the contemporary global economy, consumers across industries have been well-treated, and "Bigtechs" like Ali Baba, Apple, Amazon, and E-bay, to name just a few (Capgemini, 2018), together with "Fintech" and "Incumbent banks," deserve the credit (Capgemini, 2018). Customers anticipate quick product delivery and faultless service (Markovitch & Willmott, 2014).

The business environment has grown increasingly difficult due to ongoing margin constraints as a result of recent technological advancements that have rapidly renovated the world's economies (Botta, et al., 2016). Digital technologies impede not only competition but also the function of payments in industries that affect end-user customers. Still, financial institutions see these upheavals as a huge opportunity to quickly adapt their long-term business strategy (Boston Consulting Group, 2018).

One of the key developments in the financial sector is the use of technology (Yadgarov et al. 2019). The development of digital identification systems, cybersecurity plans, and data protection by financial institutions and governments is crucial as the nations migrate to a digital economy (Artemenko and Zenchenko 2021).

The banking industry's digitization has a favourable effect on society's overall digitalization. The likelihood that people may migrate to using digital channels for financial transactions rises as a result (Carbó-Valverde et al. 2020).

According to Zhao et al. 2019 and Georgescu and Kinnunen 2021, digital competencies are a strong predictor of competitiveness, and the financial sector's digitization helps it accomplish sustainable development goals. By making banking procedures more technologically efficient, traditional operations can be streamlined and optimised, fraud can be prevented, and new, more specialised offers may be developed to better service remote locations and cater to customer needs while also lowering operating costs (Artemenko and Zenchenko 2021; Kitsios et al. 2021).

Banks can lessen their direct environmental effect thanks to digitalization. Because it performs some processes remotely, the bank consumes less paper and operates less frequently on land and in the air. It was discovered that when modern technologies advance, energy consumption can rise and energy efficiency can rise as well (Zakari et al. 2021). Digitalization contributes to increased banking activity transparency. For management procedures and business culture to be improved, transparency is required. Banks can adapt their business strategy to meet the demands of contemporary society by developing new products and services and moving some tasks to a remote format. The bank is more inclusive and accessible thanks to digitalization. The objective of this paper is to find the impact of digitization of branch banking on audit and compliance in branch.

2. LITERATURE REVIEW

Primalarani G. et al. (2020) claim that digitalization is significantly influencing the banking landscape in India. The widespread use of 3G and 4G networks, as well as the accessibility of smartphones, have a direct impact on the digital transformation. The endeavour of digitization on the financial industry causes a commotion among the staff in banks, both public and private. The goal of this study is to determine if bank digital transformation will increase opportunities in the banking industry or reduce bank employment among the banking workforce. The researcher uses secondary data from a variety of publications, books, blogs, journals, etc. to accomplish the study's goal.

Based on the TAM approach, Bastari et al. (2020) examine the effects of intrinsic motivation on Bank Kalsel employees' use of applications and websites for task completion and performance evaluation. In this survey, 375 employees from Bank Kalsel's branch offices served as respondents. The LISREL 8.8 software's Structural Equation Modeling (SEM) function was used to analyse the study's data. The findings demonstrate a direct relationship between intrinsic motivation, perceived ease of use, and perceived utility and the intention to use the web and applications provided as part of Bank Kalsel's digitization process. Additionally, the indirect effects of the suggested model are examined, and it is discovered that perceived usefulness and simplicity of use totally moderate the link.

Balkan (2021) asserts that technological advancement is altering society, economy, banks, and banking. Technology shifts initially shifted banking transactions away from branches, which were traditional distribution channels, and toward automated teller machines (ATM), telephone, online banking, and mobile devices later on and diversified distribution channels. This transformation persisted, and over time, big data, cloud-based applications, and the idea of big data reading comprehension all became more significant. Additionally, cryptocurrency has entered the mainstream of daily life. Global communication was made possible by advancements in digital communication. Digital banking initially took the form of a distribution channel, which offered accessibility, a cost benefit, and increased productivity by allowing financial services to be given without the branch, i.e., staff. Due to the banking system's competitive advantage, this circumstance improved the profitability of the banks. One of the advancements brought about by technology is social media. Blogs and online channels like YouTube have become commonplace. Banks must be present on social media not only to maintain a large client base and establish a new service architecture, but also to achieve their marketing and public relations objectives. Social networks also have an impact on banking at the same time. New business models based on social media have emerged as a result of the increased interactive communication on the internet brought about by social networks like Twitter, Facebook, and Linkedin. Innovative, adaptable, and flexible financial solutions provided by "Fintech" businesses—another change brought about by digitalization and technical advancements—seemed likely to revolutionise banks and banking as well. Fintech businesses are a threat to the industry on the one hand, but it has also been acknowledged that working with them to develop new business platforms might give businesses a competitive edge. These technology advancements had an impact on legislation and prompted the creation of official open banking regulations. Through the use of Application Programming Interfaces (API), Open Banking made it possible for Fintech companies to create financial services. This modification

transforms banks into platforms and makes it possible to lay the groundwork for structures that would allow banks to work with Fintech companies to access more competitive financial goods and services of higher quality. To stay up with the digital shift, banks may need to alter their offerings, business processes, organisational structures, and architectural design. Banks are evolving into organisations that turn data into information and sell information rather than actual money. The digital revolution is shifting our banking industry's bank-centered vision in an ever-increasing trend toward a customer-oriented viewpoint. The establishment of digital banks providing direct digital financial services, in addition to the fact that banks are institutions rendering service only through the use of digital channels and considering the digital platform as a service channel solely, is the major essential development in addition to the fact that banks accommodated themselves to mobile technology.

3. RESEARCH HYPOTHESIS

The present research is based on following hypotheses:

a. There is no impact of digitization of branch banking on branch audit rating
b. There is no impact of digitization of branch banking on branch FOCUS
c. There is no impact of digitization of branch banking on compliance adherence scores of the branches
d. There is no impact of digitization of branch banking on number of critical requests received by the branches
e. There is no impact of digitization of branch banking on customer escalation

4. METHODOLOGY

4.1 Sampling:

In the study, the data is collected from the 60 auditors in rural and urban areas. The impact of digitization on audit and compliance is evaluated with respect to the following five audit and compliance performance criteria:

- Branch audit rating
- FOCUS
- Customer escalation
- No of critical requests
- Compliance Adherence Score

Taking into consideration the demographic heterogeneity of the respondents, various strata were identified and the technique of stratified sampling was used for creating the homogeneous groups of the samples. Further, availability sampling and purposive sampling techniques were adopted for the final selection of the respondents.

4.2 Measure:

This research study is based predominantly on the primary data. Primary data was collected by administering a well-structured questionnaire. The questionnaire was designed by the researchers incorporating all the specified variables and constructs. Five-point Likert Scale ranging from 1= ‘strongly disagree’ to 5 = ‘strongly agree’ was used for the items measured, such as:

- Branch audit rating
- FOCUS
- Customer escalation
- No of critical requests
- Compliance Adherence Score

5. IMPACT OF DIGITIZATION OF BRANCH BANKING ON AUDIT AND COMPLIANCE IN BRANCH

This section provides the analysis of impact of digitization of branch banking on audit and compliance in branch. The data is collected from the 60 auditors in rural and urban areas. The impact of digitization on audit and compliance is evaluated with respect to the following five audit and compliance performance criteria:

- Branch audit rating
- FOCUS
- Customer escalation
- No of critical requests

- Compliance Adherence Score

5.1 Impact of Digitization of Branch Banking on Branch Audit Rating

The impact of digitization of branch banking on branch audit rating is evaluated by comparing the means of ratings of branches during a period of three years before digitization i. e. from 2014-15 to 2016-17 and during a period of three years after digitization i. e. from 2017-18 to 2019-20. The null hypothesis is presented below:

H1: There is no impact of digitization of branch banking on branch audit rating

Paired t-test is performed to compare the differences in the means at .05 significance level. The result of the test is presented below:

Paired Samples Statistics

	Mean	N	Std. Deviation	Std. Error Mean
Pre-Digitization-Rating	4.2203	59	.25975	.03382
Post-Digitization-Rating	5.5989	59	.83684	.10895

Table: 1 Descriptive Statistics of Branch Audit Rating

Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pre-Digitization-Rating & Post-Digitization-Rating	-1.37	.58	.076	-1.53	-1.22	-17.98	58	.000

Table: 2 Test of Significance of Branch Audit Rating

As the p-value .00<.05, the null hypothesis is rejected. The results show that, there is significant impact of digitization of branch banking on branch audit rating. The average branch audit rating has significantly increased from 4.22 to 5.59 after digitization of branch banking.

5.2 Impact of Digitization of Branch Banking on FOCUS

The impact of digitization of branch banking on FOCUS is evaluated by comparing the means of FOCUS of branches during a period of three years before digitization i. e. from 2014-15 to 2016-17 and during a period of three years after digitization i. e. from 2017-18 to 2019-20. The null hypothesis is presented below:

H2: There is no impact of digitization of branch banking on branch FOCUS

Paired t-test is performed to compare the differences in the means at .05 significance level. The result of the test is presented below:

Paired Samples Statistics

	Mean	N	Std. Deviation	Std. Error Mean

Pre-Digitization-FOCUS	68.9548	59	2.99901	.39044
Post-Digitization-FOCUS	83.1073	59	8.96704	1.16741

Table: 3 Descriptive Statistics of FOCUS

Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pre-Digitization-FOCUS & Post-Digitization-FOCUS	-14.15	6.28	.818	-15.79	-12.51	-17.29	58	.000

Table: 4 Test of Significance of FOCUS

As the p-value .00<.05, the null hypothesis is rejected. The results show that, there is significant impact of digitization of branch banking on FOCUS. The average FOCUS has significantly increased from 69 to 83 after digitization of branch banking.

5.3 Impact of Digitization of Branch Banking on Compliance Adherence Score

The impact of digitization of branch banking on compliance adherence score of the branches is evaluated by comparing the means of compliance adherence scores of branches during a period of three years before digitization i. e. from 2014-15 to 2016-17 and during a period of three years after digitization i. e. from 2017-18 to 2019-20. The null hypothesis is presented below:

H3: There is no impact of digitization of branch banking on compliance adherence scores of the branches

Paired t-test is performed to compare the differences in the means at .05 significance level. The result of the test is presented below:

Paired Samples Statistics

	Mean	N	Std. Deviation	Std. Error Mean
Pre-Digitization-Compliance-Score	798.4807	59	18.51726	2.41074
Post-Digitization-Compliance-Score	990.6846	59	4.35668	.56719

Table: 5 Descriptive Statistics of Compliance Adherence Score

Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pre-Digitization-Compliance-Score & Post-Digitization-Compliance-Score	-192.20	18.84	2.45	-197.11	-187.29	-78.34	58	.000

Table: 6 Test of Significance of Compliance Adherence Score

As the p-value .00<.05, the null hypothesis is rejected. The results show that, there is significant impact of digitization of branch banking on compliance adherence scores of the branches. The average compliance adherence score has significantly increased from 798.48 to 990.68 after digitization of branch banking.

5.4 Impact of Digitization of Branch Banking on Number of Critical Requests received (handled) by the bank

The impact of digitization of branch banking on number of critical requests received by the branches is evaluated by comparing the means of number of critical requests received by branches during a period of three years before digitization i. e. from 2014-15 to 2016-17 and during a period of three years after digitization i. e. from 2017-18 to 2019-20. The null hypothesis is presented below:

H4: There is no impact of digitization of branch banking on number of critical requests received by the branches

Paired t-test is performed to compare the differences in the means at .05 significance level. The result of the test is presented below:

Paired Samples Statistics

	Mean	N	Std. Deviation	Std. Error Mean
Pre-Digitization-Critical-Requests	11.9266	59	9.86714	1.28459
Post-Digitization-Critical-Requests	3.5480	59	3.03414	.39501

Table: 7 Descriptive Statistics of No. of Critical Requests

Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pre-Digitization-Critical-Requests & Post-Digitization-Critical-Requests	8.37	6.94	.90	6.56	10.18	9.26	58	.000

Table: 8 Test of Significance of No. of Critical Requests

As the p-value .00<.05, the null hypothesis is rejected. The results show that, there is significant impact of digitization of branch banking on number of critical requests received by the branches. The average number of critical requests received by the branches have significantly reduced from 12 to 4 after digitization of branch banking.

5.5 Impact of Digitization of Branch Banking on Customer Escalation

The impact of digitization of branch banking on customer escalation is evaluated by comparing the means of customer escalation during a period of three years before digitization i. e. from 2014-15 to 2016-17 and during a period of three years after digitization i. e. from 2017-18 to 2019-20. The null hypothesis is presented below:

H5: There is no impact of digitization of branch banking on customer escalation

Paired t-test is performed to compare the differences in the means at .05 significance level. The result of the test is presented below:

Paired Samples Statistics

	Mean	N	Std. Deviation	Std. Error Mean
Pre-Digitization-Customer-Escalation	6.6610	59	4.80002	.62491
Post-Digitization-Customer-Escalation	2.8192	59	2.88962	.37620

Table: 9 Descriptive Statistics of Customer escalation

Paired Samples Test

	Paired Differences					t	Df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pre-Digitization-Customer-Escalation – Post-Digitization-Customer-Escalation	3.84	2.92	.38	3.08	4.60	10.095	58	.000

Table: 10 Test of Significance of Customer escalation

As the p-value .00<.05, the null hypothesis is rejected. The results show that, there is significant impact of digitization of customer escalation at the branches. The customer escalation has significantly reduced from 6.66 to 2.81 after digitization of branch banking.

6. CONCLUSION

The main aim of the study is to analyse the impact of digitization of branch banking on audit and compliance in branch. The data is collected from the 60 auditors in rural and urban areas. The impact of digitization on audit and compliance is evaluated with respect to the following five audit and compliance performance criteria viz., Branch audit rating, FOCUS, Customer escalation, No. of critical requests, Compliance Adherence Score. The data for the above-mentioned parameters is gather for a three years pre-digitization period ranging from 2014-2015 to 2016-2017. Similarly, the post digitization data is gathered for three years period from 2017-2018 to 2019-2020. The pre-digitization and post-digitization averages of all the parameters are compared with the help of paired t-test. The result of paired sample t-test reveal that, since. P-value obtained in case of all the parameters is less than the alpha value of 0.05 ($p<0.05$), there is significant impact of digitization of bank on audit and compliance. All the parameters i.e. Branch audit rating, FOCUS, Customer escalation, No. of critical requests, Compliance Adherence Score have shown a significant improvement post digitization.

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