

# Students' ECONOMIC FORUM

A monthly publication from South Indian Bank

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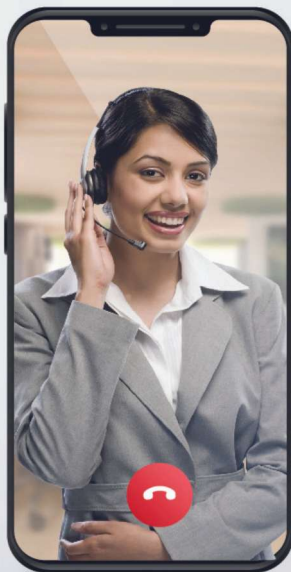
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## Digital Banking 2.0

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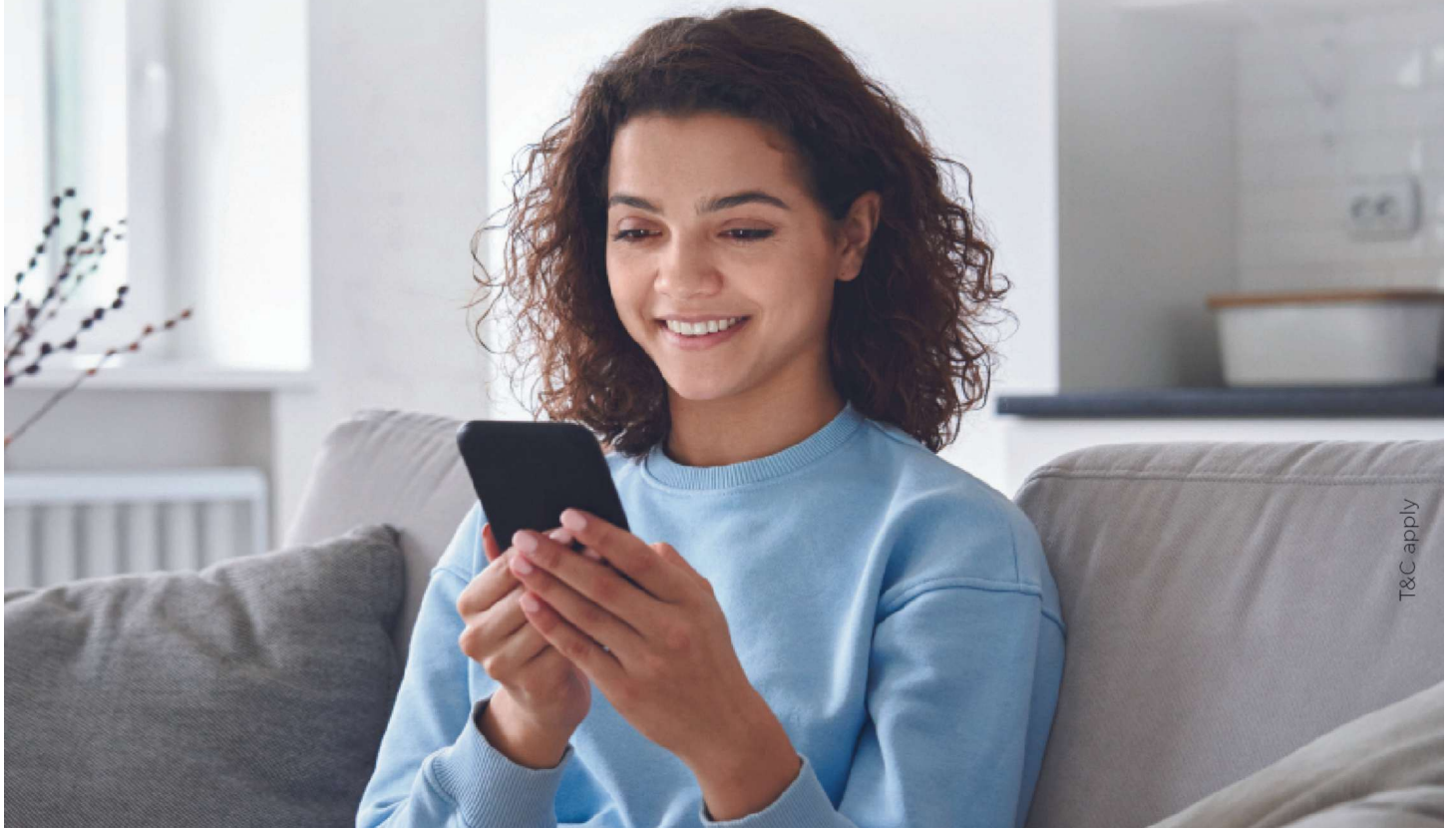
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## Digital Banking 2.0

*The invisible revolution  
in your pocket*

“Banking is no longer somewhere you go, it’s something you do. In the 2.0 era, the bank is not a place, nor a destination - it is a layer of your life that provides utility when and where you need it most.”

Jan 2026 | Theme 409

Brett King, Author of Bank 4.0, Founder of Moven

The 'SIB Students' Economic Forum' is designed to kindle interest in the minds of the younger generation. We highlight one theme in every monthly publication. Topic of discussion for this month is [Digital Banking 2.0](#).

### Digital Banking 2.0: The Invisible Revolution in Your Pocket

For centuries, "going to the bank" was a physical errand. It involved marble hallways, the smell of old paper, and the rhythmic thumping of rubber stamps. Then came Digital Banking 1.0, which essentially took those same paper forms and put them on a screen. You still had to navigate complex menus, wait for manual approvals, and occasionally visit a branch to "verify" something.



As we move through 2026, we have entered the era of **Digital Banking 2.0**. In this world, the bank is no longer a place you go - it is a service that lives invisibly around you. It is native to your smartphone, your voice, and even your refrigerator. But this isn't just a tech upgrade; it is a regulated evolution.

On **January 1, 2026**, the Reserve Bank of India (RBI) enacted a landmark regulatory reset that changed the DNA of how money moves in India.

This is the story of that revolution: how it works, the rules that protect you, and what it means for the way you live your life.

### The Regulatory Blueprint (The Rules of 2026)

Technology moves fast, but in banking, trust moves at the speed of regulation. To protect the public, the RBI introduced the **Reserve Bank of India (Digital Banking Channels Authorisation) Directions, 2025**. These rules, which became the law of the land on New Year's Day 2026, created a strict hierarchy for what a "digital bank" must be.

## 1. The Distinction: View-Only vs. Transactional

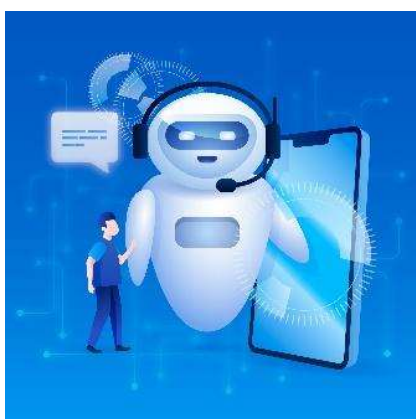
Not all digital apps are created equal. The regulator now strictly separates services:

- **View-Only Banking:** Any bank can show you your balance, but only if they have a fully modernized **Core Banking Solution (CBS)** and use **IPv6**—the latest global internet standard that ensures every transaction has a unique, traceable "address."
- **Transactional Banking:** To let you move even one rupee or apply for a loan, a bank now needs specific authorization. They must prove they have a "Clean Cyber-Security Posture" and submit a **GAICA (Gap Assessment and Internal Controls Adequacy)** report to the RBI. This report is like a "fitness test" for the bank's computers, ensuring they can't be easily hacked.

## 2. The Ban on "Coercive Bundling"

We've all been there: you open a savings account, and suddenly you are sent a debit card you didn't ask for, with a fee you didn't agree to. Under the **Responsible Business Conduct Directions of 2025**, this is now illegal. Digital banking cannot be "bundled." You must give **explicit, separate consent** for every service - the app, the card, and the insurance. If you just want the app, you get just the app.

## The Rise of Agentic AI (Your Personal CFO)



In 2024, we had "Chatbots" that gave canned answers. In 2026, we have **Agentic AI**. These are autonomous systems that don't just talk - they *act*.

### The Seven Sutras of AI

Because AI is so powerful, the RBI issued the **FREE-AI (Framework for Responsible and Ethical Enablement of AI)** report in late 2025.

This framework mandates that every bank follow the "7 Sutras" (guiding principles):

1. **Trust:** AI must be reliable.
2. **People First:** AI supports humans but never replaces human judgment in critical decisions.

3. **Innovation over Restraint:** Encouraging new ideas while managing risks.
4. **Fairness:** AI cannot discriminate based on your background or location.
5. **Accountability:** If an AI makes a mistake, the bank - not the computer - is responsible.
6. **Understandability:** You have the right to know *why* an AI rejected your loan.
7. **Safety & Resilience:** AI must be "Red-Teamed" (tested by hackers) to ensure it is robust.

### What This Means for the Customer

Imagine a small trader in a local market. His "Banking Agent" notices his cash flow is dip because of a late shipment. Without the trader doing anything, the AI scans the market for the lowest interest "bridge loan," prepares the application using the trader's verified data, and sends a notification: *"I've found a loan for ₹50,000 at 9% to cover your bills. Click 'Approve' to have the funds in 10 seconds."* This is the shift from **Informational Banking** to **Actionable Banking**.

### Data Sovereignty and the Account Aggregator

For years, your financial history was "locked" inside your bank's vault. If you wanted to move to a new bank, you had to beg for your own data in the form of printed statements.

In Digital Banking 2.0, you are the master of your data via the **Account Aggregator (AA)** ecosystem. As of late 2025, over 2.5 billion accounts are linked to this network.

### The "Consent Handle"



Instead of sharing passwords or uploading PDFs, you use a "Consent Handle." Think of it like a digital "pipe." When you apply for a home loan, you give the new lender permission to "peek" at your salary history via the AA pipe for exactly 30 seconds. The data is encrypted, verified by the source bank, and instantly processed.

No paper. No forgery. No delay.

## Security 2.0 (The End of the OTP)

The One-Time Password (OTP) was a great invention, but it has become a target for scammers. Digital Banking 2.0 is moving toward **Behavioural Biometrics**.

### The Silent Bodyguard

The bank's security now learns the "cadence" of your life. It looks at:

- **Keystroke Dynamics:** The specific speed and rhythm with which you type your PIN.
- **Device Fingerprinting:** The unique "noise" your phone's sensors make.
- **Geospatial Logic:** If you are at your usual coffee shop, the security is light. If you are suddenly trying to send a large sum from an unrecognized device in a different country at 3 AM, the system triggers **Risk-Based Authentication (RBA)**.



Instead of an SMS, you might be asked for a **Video-KYC Liveness Check**. You look into the camera, and the AI ensures you are a living human - not a photo or a "Deepfake" video - before the money moves.

## The e-Rupee and the Programmable Wallet

2026 is the year the **Central Bank Digital Currency (CBDC)**, or the **e-Rupee**, moved from a pilot to a powerhouse. Unlike the money in your bank account, the e-Rupee is digital *cash*.

### Programmable Money

This is the most "sci-fi" part of Digital Banking 2.0. Because the e-Rupee is digital code, it can be programmed.

- **Subsidies:** The government can send "Fertilizer e-Rupees" to a farmer. These tokens can *only* be spent at authorized fertilizer dealers. They won't work at a grocery store or a cinema. This ensures welfare money goes exactly where it is needed.

- **Corporate Escrow:** A company can send "Travel e-Rupees" to an employee that only work for airlines and hotels, automatically expiring if not used by the end of the trip.

## The Liquidity Challenge (The "Speed" Risk)

While Digital Banking 2.0 is great for customers, it creates a new challenge for the stability of the entire financial system. Because you can move your money in seconds, "Bank Runs" can now happen at the speed of light.

## The LCR Factor

The RBI has updated the **Liquidity Coverage Ratio (LCR)** rules. Banks are now required to keep more "High-Quality Liquid Assets" (like Government Bonds) to back up digital deposits. The logic is simple: If a rumour starts on social media, thousands of people could withdraw their money via UPI in minutes. The bank must be "bulletproof" to handle that sudden exit. As a customer, this means your digital money is backed by even stronger reserves than your physical cash once was.

## Financial Inclusion (Banking for the "Next Billion")

Digital Banking 2.0 isn't just for people with the latest iPhones. It is designed to be **Vernacular and Voice-First**.

## The End of the Language Barrier

Under the **2025 Customer Conduct Guidelines**, banks must provide digital services in multiple languages. Using AI-driven **Voice-UI**, a street vendor can simply speak to her phone: "*Mere pichle hafte ki kamai batao*" (Tell me my earnings from last week). The app understands the intent, fetches the UPI history, and speaks the answer back.

By removing the "Keyboard Barrier," we are bringing millions of seniors and rural citizens into the formal economy for the first time.

## The Citizen's Bill of Rights in 2026

With all this technology, what are your rights? The **Digital Personal Data Protection (DPDP) Act** and the **RBI's 2025 Directions** give you four "Superpowers":

1. **The Right to Forget:** You can ask a bank to delete your data once your relationship with them ends.

2. **The Right to Human Intervention:** If an AI denies your loan, you have a legal right to ask a human officer to review the decision.
3. **The Right to Choice:** A bank cannot force you to use their "Super App." You have the right to use any third-party interface you choose.
4. **The Right to Redress:** All banks must provide a digital portal where you can track a complaint in real-time, linked directly to the **RBI's Sachet Portal** for escalation.

## Trust is the Only Currency

We are living through a period where the "hardware" of banking (the buildings and the vaults) is being replaced by the "software" of banking (the code and the algorithms). But the fundamental purpose of a bank remains the same: it is a keeper of trust.

Digital Banking 2.0 makes life easier, faster, and more inclusive. But it also requires us to be more "Digitally Literate." We must understand that while the bank has become invisible, the rules that govern it are stronger than ever. The vault is now in your pocket, and for the first time in history, you hold the key.

## Glossary for the 2.0 Era

- **IPv6:** The "Internet Protocol" that allows for billions of new, secure connections.
- **CIMS Portal:** The RBI's central system where all legal Digital Lending Apps must be registered.
- **Deepfake:** An AI-generated video or voice used by scammers to mimic real people.
- **GAICA:** The "fitness test" report a bank must pass before offering digital services.
- **Default Loss Guarantee (DLG):** A safety net where Fintechs back up the loans they help banks give out (capped at 5% by the RBI).

## The Consumer's Compliance Checklist (2026 Edition)

Before you link your bank account or share your data with a new app, check if it meets these five **RBI - mandated** standards:



## 1. The "Bundling" Test

- **The Rule:** Per the *Responsible Business Conduct Directions (2025)*, a bank cannot force you to take a debit card or insurance just because you signed up for a mobile app.
- **Check:** Does the app allow you to "Opt-In" to specific services individually? If it's a "Take it all or nothing" deal, it's likely non-compliant.

## 2. The "Authorization" Badge

- **The Rule:** All transactional apps must have an RBI authorization certificate.
- **Check:** Look for the "**Authorized by RBI under 2025 Directions**" mark in the app's 'About' or 'Legal' section. You can cross-verify this on the **RBI's PRAVAAH portal**.

## 3. Clear Language & Multilingual Support

- **The Rule:** Terms and conditions must be available in at least your regional language and written in plain, non-legal language.
- **Check:** Can you switch the app's "Terms of Service" to Malayalam, Hindi, or Tamil? Are the fees shown in a simple table, or are they hidden in a 50-page PDF?

## 4. Explicit Consent for Data (Account Aggregator)

- **The Rule:** Apps cannot "scuff" or "scrape" your SMS for financial data. They must use the **Account Aggregator (AA)** network.
- **Check:** When the app asks for your bank history, does it redirect you to an AA consent screen? If it asks for your net banking password to "read" your statements, **do not provide it**.

## 5. The "Kill Switch" (De-registration)

- **The Rule:** De-registering should be as easy as registering.
- **Check:** Is there a clear "Delete my account and data" button? Under the **DPDP Act 2023**, you have the *Right to Erasure* once the service is no longer needed.



## RBI's (Digital Banking Channels Authorisation) Directions, 2025:

Feature	Requirement / Status
<i>View-Only Services</i>	Permitted for all banks with a Core Banking Solution (CBS) and IPv6-enabled infrastructure.
<i>Transactional Services</i>	Requires prior RBI approval. Banks must demonstrate financial and technical capability.
<i>The GAICA Report</i>	Banks must submit a Gap Assessment and Internal Controls Adequacy (GAICA) report via the PRAVAAH portal.
<i>Explicit Consent</i>	Banks can no longer "pre-check" boxes. Customers must give documented consent for every digital service.
<i>Zero-Cost Inclusion</i>	Full digital banking must be provided free of cost for BSBD (Basic Savings Bank Deposit) account holders.

### References:

**1. Reserve Bank of India (2025)** *Master Direction – Digital Banking Channels Authorisation Directions, 2025*. This is the foundational document for the 2026 transition, outlining the new "Transactional" vs. "View-Only" licenses and the strict cybersecurity and consent requirements for Indian banks.

**2. Capgemini Research Institute (2026)** *World Banking Report 2026: The Rise of Agentic AI and Hyper-Personalization*. A global industry benchmark that explains how banks are moving away from traditional interfaces toward autonomous AI assistants that manage customer wealth and compliance in real-time.

**3. King, Brett (2018/Updated 2025)** *Bank 4.0: Banking Everywhere, Never at a Bank*. The seminal text on "First Principles" banking, which predicted the shift from physical branches to invisible, embedded financial services that are integrated directly into our daily technology.

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