Indian Economy · GS - III

Digitalisation has increased the efficiency of banking services but has also exposed financial institutions to technology-related operational risks. Examine the importance of operational resilience in maintaining financial stability in an increasingly interconnected banking system.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 17/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Digital banking, operational risk, software and hardware failures, cybersecurity, systemic risk, business continuity planning, disaster recovery, RBI supervision, third-party service providers, customer protection, technological resilience.

Model Answer

Introduction

Digital banking has improved transaction speed, accessibility and financial inclusion. However, dependence on interconnected technological infrastructure has increased the possibility of large-scale service disruptions.

Major Operational Risks

1. **Technology failures:** Software bugs, hardware breakdowns and network outages can interrupt banking operations.
2. **Cyber threats:** Phishing, ransomware and unauthorised access can compromise financial data and transactions.

3. **Third-party dependence:** Reliance on cloud services and technology vendors creates external operational vulnerabilities.
4. **Systemic risk:** Disruptions in interconnected banks and payment networks can affect the wider financial system.
5. **Consumer confidence:** Repeated service failures undermine trust in digital financial services.

Importance of Operational Resilience

- Ensures continuity of critical banking and payment services.
- Protects customer deposits, transaction records and sensitive information.
- Reduces the possibility of operational disruptions spreading across institutions.
- Strengthens confidence in the financial system.

Way Forward

Banks should undertake regular technology audits, maintain backup infrastructure, conduct disaster-recovery exercises and establish robust business continuity plans. The RBI should strengthen operational risk supervision, third-party risk management and incident-reporting mechanisms. Effective grievance redressal and timely customer communication are equally important.

Conclusion

Financial stability in the digital era depends not only on capital adequacy but also on technological reliability. Operational resilience must therefore become an integral component of banking governance and financial regulation.

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