



E-BANKING IN INDIA - PROBLEMS AND PROSPECTS

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ABSTRACT

Banking sector plays an important role in the development of a country. It is the lifeline of an economy. A strong and healthy banking system is important requirement for economic growth. Indian banking industry, today, is in the midst of an IT (Information Technology) revolution. The implementation of internet in banking organizations has restructured the banks. E-banking has improved efficiency and convenience; it has also posed several challenges to the regulators and supervisors. The competition among the banks has led to the increasing total banking automation in the Indian banking industry. E-Banking is a generic term encompassing internet banking, telephone banking, mobile banking etc. Through E-Banking the bank wants to introduce the core concept of IT based services. The E-Banking services are executed only upon the customer, and these e-banking services would fully integrate with the core banking solution that is already in usage. The objective of the present paper is to examine and analyze the problems and prospects of Electronic Banking in India.

Keywords: E-Banking, Information Technology, Internet Banking, India.

I. INTRODUCTION

Banking is the lifeline of an economy. The present and future of any economy depends upon the success and development of banking. Indian banking is the helping hand of the nation and its people. Indian banking industry, today, is in the midst of an IT (Information Technology) revolution. The competition among the banks has led to the increasing total banking automation in the Indian banking industry.

Finland was the first country in the world to have taken a lead in E-banking. In India, it was ICICI bank which initiated E-banking as early as 1997 under the brand name Infinity. Electronic banking is defined as "Delivery of bank's services to a customer at his office or home by using Electronic technology can be termed as Electronic Banking." Online Banking or Internet Banking or E-banking allows customers of financial transactions on a secured website operated by the institution, which can be a retail bank, virtual bank, credit union or building society. The popular services covered under E-banking include:-

- Automated Teller Machines (ATM)
- Credit Cards
- Debit Cards
- Smart Cards
- Electronic Funds Transfer (EFT) System,
- Mobile Banking
- Internet Banking
- Telephone banking
- Electronic Clearing Services

E-banking is a generic term for delivery of banking services and products through electronic channels, such as the telephone, the internet, the cell phone, etc. The concept and scope of E-banking is still evolving. It facilitates an effective payment and accounting system thereby, enhancing the speed of delivery of banking services considerably. Several initiatives taken by the government of India, as well as the Reserve Bank of India (RBI), have facilitated the development of E-banking in India. The government of India enacted the IT Act, 2000, which provides legal recognition to electronic transactions and other means of electronic commerce. The RBI has been preparing to upgrade itself as a regulator and

supervisor of the technologically dominated financial system. It issued guidelines on risks and control in computer and telecommunication system to all banks, advising them to evaluate the risks inherent in the systems and put in place adequate control mechanisms to address these risks. The existing regulatory framework over banks has also been extended to E-banking. It covers various issues that fall within the framework of technology, security standards, and legal and regulatory issues. While E-banking has improved efficiency and convenience, it has also posed several challenges to the regulators and supervisors.

A successful E - banking offers :

- Checking with no monthly fee, free bill payment and rebates on ATM
- surcharges Credit cards with low rates
- Easy online applications for all accounts, including personal loans and mortgages 24 hour account access
- Quality customer service with personal attention
- Advantages previously held by large financial institutions have shrunk considerably.

The Internet has leveled the playing field and afforded open access to customers in the global marketplace. Internet banking is a cost-effective delivery channel for financial institutions. Consumers are embracing the many benefits of Internet banking. Access to one's accounts at anytime and from any location via the World Wide Web is a convenience unknown a short time ago. Thus, a bank's Internet presence transforms from 'brochure' status to 'Internet banking' status once the bank goes through a technology integration effort to enable the customer to access information about his or her specific account.

II. REVIEW OF LITERATURE

The Internet banking is changing the banking industry and is having the major effects on banking relationships. Internet banking involves use of Internet for delivery of banking products and services. There are several major challenges and issues facing the internet banking today. First, and perhaps most important is the security concern (Ziqi and Michael, 2003). Customers are certainly concerned of giving their bank account information online. Proper completion of transaction from beginning till end is the

prime concern of users of internet banking. Unfortunately they face problems during the process of transactions and many times they have to restart the whole process from beginning.

Another challenge facing internet banking, in general, is the quality of delivery service – including both delivery speed (i.e., short advance time required in ordering) and delivery reliability (i.e., delivery of items/services on time) (Furst et al., 2000).

Limited online payment options have resulted in many customers to drop out due to dissatisfaction and inconvenience. Internet banking also has the potential to create new opportunities for fraud and cyber crime. Moreover, customer education on security risks can play an important role for consumer protection and thereby, limit reputational risk of the banks. Finally, the issue of customer unfamiliarity with the internet is also imperative to deal with, which is prominent among senior citizens (Yang et al., 2007). There are plenty of issues, which influence customer's intention to adopt internet banking. These issues should be of prime concern to the banks providing internet banking facilities and the banks should make efforts to expunge these issues.

Financial reforms had its impact on Indian banks and financial institutions. In the fast changing financial environment, fierce competition and changes in the regulatory policies created uncertainty and risk for the Indian banking industry. Realizing this fact, academicians and practitioners highlighted in their studies that information source in banks was of capital importance and they looked at information technology as strategic response to changing financial environment/challenges (Ammayya, 1996).

Beckett, Hewer and Howcroft (2000) stated that the emergence of new forms of technology had created highly competitive market conditions for bank providers. However, the changed market conditions demand for better understanding of consumers' needs. Subsequently, Narasimham Committee (1992) while highlighting the problems faced by Indian public sector banks, also stressed the need for greater measure of computerization in banks. The committee observed that modern banking involves a great deal of processing of mass of information and commitment to technology is

the only solution that ensures timeliness, accuracy and resultant improved performance and enhanced customer service (Bide, 1997).

On similar lines, several academicians and practitioners argued that technology in banks would help to increase the level of productivity and customer satisfaction (Girish and Preetha, 1997). To meet the challenges posed by the entry of foreign banks, Indian banks will have to invest heavily in technology to meet competition, reduce cost, improve customer service, improve productivity and offer new products/services. Technology in service organization is important for success.

III. RESEARCH METHODOLOGY

Objective of the study

1. To study the challenges faced in E-banking in India.
2. To study the opportunities existing in E-banking in India.

The present study is descriptive in nature. The data used for the study is secondary in nature and has been collected from RBI (Reserve Bank of India) bulletin, annual reports of RBI and, Report on trend and progress of banking in India, various reputed journals, newspapers, white papers and research studies.

IV. PROBLEMS OF E BANKING

Difficulties in implementation of global technology: There is a need to have an adequate level of infrastructure and human capacity building before the developing countries can adopt global technology for their local requirements. In developing countries, many consumers either do not trust or do not access to the necessary infrastructure to be able to process e-payments.

Confidentiality, integrity and authentication: These three are the very important features of the banking sector and were very successfully managed all over the world before the coming of internet. Communication across an open and thus insecure channel such as the internet might not be the best base for bank-client relations as trust might partially be lost.

Customer Satisfaction: In today's competitive world, satisfaction of customers is a major challenge for the banking sector because customers have alternative choices in various types of services provided by banks.

Availability of Personnel services: In present times, banks are to provide several services like social banking with financial possibilities, selective up gradation, computerization and innovative mechanization, better customer services, effective managerial culture, internal supervision and control, adequate profitability, strong organization culture etc. Therefore, banks must be able to provide complete personnel service to the customers who come with expectations.

Competition: The nationalized banks and commercial banks have the competition from foreign and new private sector banks. Competition in banking sector brings various challenges before the banks such as product positioning, innovative ideas and channels, new market trends, cross selling ad at managerial and organizational part this system needs to be manage, assets and contain risk. Banks are restricting their administrative folio by converting manpower into machine power i.e. banks are decreasing manual powers and getting maximum work done through machine power. Skilled and specialized man power is to be utilized and result oriented targeted staff will be appointed.

Handling Technology: Developing or acquiring the right technology, deploying it optimally and then leveraging it to the maximum extent is essential to achieve and maintain high service and efficiency standards while remaining cost effective and delivering sustainable return to shareholders. Early adopters of technology acquire significant competitive advances Managing technology is therefore, a key challenge for the Indian banking sector.

Security Risk: The problem related to the security has become one of the major concerns for banks . A large group of customers refuses to opt for e-banking facilities due to uncertainty and security concerns . Most of internet users are not using internet banking in India because of security concerns. So it's a big challenge for marketers and makes consumers satisfied regarding their security concerns, which may further increase the online banking use.

Privacy risk: The risk of disclosing private information & fear of identity theft is one of the major factors that inhibit the consumers while opting for internet banking services. Most of the consumers believe that using online banking services make them vulnerable to identity theft.

The Trust Factor: Trust is the biggest hurdle to online banking for most of the customers. Conventional banking is preferred by the customers because of lack of trust on the online security. They have a perception that online transaction is risky due to which frauds can take place.

Customer Awareness: Awareness among consumers about the e-banking facilities and procedures is still at lower side in Indian scenario. Banks are not able to disseminate proper information about the use, benefits and facility of internet banking. Less awareness of new technologies and their benefits is among one of the most ranked barrier in the development of e-banking .

Less Internet Penetration in Indian Context: The internet banking channel has evolved over the years. The knowledge and availability of internet is still a one of the biggest challenges that prevails in Indian context. So the penetration of internet and knowledge related to internet are major hurdles.

V. PROSPECTS OF E BANKING

Despite of various problems that are prevailing in context with e-banking in India, the following opportunities are motivating the marketers for implementing e-banking:

Untapped Rural Markets: Contributing to 70% of the total population in India is a largely untapped market for banking sector. In all urban areas banking services entered but only few big villages have the banks entered. So that the banks must reach in remaining all villages because majority of Indian still living in rural areas.

Multiple Channels: Banks can offer so many channels to access their banking and other services such as ATM, Local branches, Telephone/mobile banking, video banking etc. to increase the banking business.

Worthy Customer Service: Worthy customer services are the best brand ambassador for any bank for growing its business. Every engagement with customer is an opportunity to develop a customer faith in the bank. While increasing competition customer services has become the backbone for judging the performance of banks.

Internet Banking: It is clear that online finance will pickup and there will be increasing convergence in terms of product offerings

banking services, share trading, insurance, loans, based on the data warehousing and data mining technologies. Anytime anywhere banking will become common and will have to upscale, such up scaling could include banks launching separate internet banking services apart from traditional banking services.

Retail Lending: Recently banks have adopted customer segmentation which has helped in customizing their product folios well. Thus retail lending has become a focus area particularly in respect of financing of consumer durables, housing, automobiles etc., Retail lending has also helped in risks dispersal and in enhancing the earnings of banks with better recovery rates.

Indian Customers: The growing Indian banking sector with its strong home country linkages, seek a unique combination of Indian ethnicity and global standards that offers a valuable nice opportunities for Indian banks. The biggest opportunity for the Indian banking sector today is the Indian costumers. Demographic shifts in terms of income level and cultural shifts in terms of life style aspirations are changing the profile of the Indian customer. This is and will be a key driver of economic growth going forward.

Increasing Internet Users & Computer Literacy: To use internet banking it is very important or initial requirement that people should have knowledge about internet technology so that they can easily adopt the internet banking services. The fast increasing internet users in India can be a very big opportunity and banking industry should encash this opportunity to attract more internet users to adopt internet banking services.

Initiatives taken by government agencies for financial literacy: Financial literacy and education play a crucial role in financial inclusion, and inclusive growth. A study reported that there is significant impact of financial literacy on use of internet banking, If customers are not financially educated they will simply avoid using new online services and not change their traditional way of banking, thus banks will not be able to convert users into their new online banking strategies. Various government institutions like RBI, SEBI, IRDA and various other market players have taken a number of initiatives on financial education. They have prepared a school curriculum along with various topics including internet banking,

banking product and services, net banking to educate the school students, college students, working executives, middle income group, home makers, retired personnel, self help groups etc.

Competitive Advantage: The benefit of adopting e-banking provides a competitive advantage to the banks over other players. The implementation of e-banking is beneficial for bank in many ways as it reduces cost to banks , improves customer relation , increases the geographical reach of the bank , etc. The benefits of e- banking have become opportunities for the banks to manage their banking business in a better way.

VI. CONCLUSION

In the past few years, the Indian banking sector has completely transformed. The banks are facing many challenges and many opportunities are available with the banks. Many financial innovations like ATMs, credit cards, RTGS, debit cards, mobile banking etc. have completely changed the face of Indian banking. But still there is a need to have more innovative solutions so that the challenges can be solved and opportunities can be availed efficiently by the Indian banks.

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