

E-Banking in India: Challenges and Opportunities

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Abstract

Banking is the lifeline of an economy. The present and future of any economy depends upon the success and development of banking. The objective can't be achieved with the traditional banking as now is the age of technology. Today banks have expanded their purview of activities and are getting into new range of products and services like e-banking services, investment banking, mutual funds, general insurance, credit cards, demat services and so on. Due to liberalization, the financial system has a greater role to play than in the past and thus one cannot afford to ignore the importance of existence of a strong Indian banking sector. E-banking plays a major role in the present banking functionality. Electronic banking is inferred to be safe and secured, compared to physical banking. E-banking ensures qualitative banking operations compared to traditional banking. However, it has its own limitations and challenges when we talk about security, on the contrary. The discussion throughout the paper revolves around the challenges that Indian banks are facing in term of e-banking, opportunity to increase awareness and measures adopted for safe and secure e-banking. Online banking has a lot of benefits which add value to customers' satisfaction in terms of better quality of service offerings and at the same time enable the banks gain more competitive advantage over other competitors. This paper discusses some challenges and opportunities in an emerging economy.

Keywords: E- Banking, Information Technology, Customer Satisfaction, Challenges, Risks, Opportunities, Managerial Implications.

INTRODUCTION

Banking is the lifeline of an economy. They are considered as vital for the growth and development of the financial system of a country. In the past decade, the overall economy has undergone a phenomenal change in terms of technological updations. With the advent of technology, the banking sector is also not left behind. Online/e-banking/virtual banking has become an important aspect in today's lives. Internet plays vital role between banks and customers to receive and deliver information, this form of banking is described as internet banking.(Reserve Bank of India'2001).Internet banking refers to a system where individual customers are allowed to perform banking activities 24*7 at off-shore sites such as home, office or any other locations via internet based secured networks. Online banking enables bank customers to get access to their accounts and general information on bank products and services through the medium of bank's website without the intervention of sending letters, faxes, original signatures and telephonic confirmation (Thulaniet al.2009).

INTERNET BANKING IN INDIA

E-banking came into being in UK and US in 1980s. However, in India, e-banking is still at nascent stage. ICICI was the first bank to introduce internet banking services in India followed by Citibank and HDFC. The Government of India and Reserve Bank are working together to strengthen and

develop e-banking in India. IT Act'2002 was enacted by the Government to provide legal recognition to electronic transactions. Most of the public and private banks have started providing Internet banking services to their customers. Indian banks offer the following e-banking services to their customers:

- a) Automatic Teller Machines (ATMs)
- b) Internet Banking
- c) Mobile Banking
- d) Phone banking
- e) Debit and credit cards
- f) NEFT and RTGS transactions
- g) Smart cards

RECENT TRENDS IN BANKING

The growing competition, growing expectations led to increase awareness amongst banks on the role & importance of technology in banking. Banking today has transformed into a technology intensive and customer friendly model with a focus on convenience. Recent trends are as follows:

- **E-Cheques:** E-Cheques which replace the conventional paper cheque. In India Negotiable Instruments Act has already been amended to include truncated cheque and E-cheque instruments.
- **Real Time Gross Settlement (RTGS):** RTGS introduced in India since March, 2004 is a system through which electronic instructions can be given by banks to transfer funds from their account to the account of another bank.
- **Electronic Funds Transfer (EFT):** It is system whereby anyone who wants to make payment to another person can approach his bank and make cash payment or give instructions to transfer funds directly from his own account to the bank account of the receiver.
- **Electronic Clearing Service (ECS):** It is a retail payment system that can be used to make bulk payment of a similar nature. It is meant for companies and government department to make and receive large volumes of payment.
- **Automatic Teller Machine (ATM):** It enables the customers to withdraw their money at any time without interacting with a human teller.
- **Point of sale Terminal:** It is a computer terminal that is linked online to the computerized customer information files in a bank & magnetically encoded plastic transaction card that identifies the customer to the computer. During transaction the customer's account debited and the retailers account is credited by the computer for the amount of purchase.
- **Tele Banking:** It facilitates the customer to do entire non-cash related banking on telephone. Under this devise Automatic Voice Recorder is used for smaller queries and transactions.

REVIEW OF LITERATURE

E-commerce literature has studied the phenomenon of e-banking from different perspectives. Some research has analyzed the adoption and growth of e-banking, whilst others describe the challenges and benefits to be gained from e-banking services as far as the organization is concerned.

- **Kumar (2006)** another path-breaking innovation in the banking sector in recent times is the emergence of internet banking customer can access his account anywhere even from the comfort of his computer in the house with the added benefit of funds transfer facility. Internet banking is estimated to be even more cost effective for banks as compares to ATMs. Internet banking also provides the customers with value added services like payment of insurance premiums, payment of utility bills, booking of railway tickets etc.
- **RBI (2001)** with the popularity of PCs, easy access to internet & World Wide Web banks increasingly use internet as a channel for receiving instructions and delivering their products and services to their customers. This form of banking generally referred to as internet banking, although the range of products and services offered by banks vary widely both in their content and sophistication.
- **Radakrishna et.al. (2007)** BNM defines internet banking as banking products & services offered by banking institutions on the Internet through access devices, including personal computers & other intelligent devices
- **Avasthi & Sharma (2000-01)** have analyzed in their study that advances in technology are set to change the face of banking business. Technology has transformed the delivery channels by banks in retail banking. It has also impacted the markets of banks. The study also explored the challenges that banking industry and its regulator face.
- **B. Janki (2002)** analyzed that how technology is affecting the employee's productivity. There is no doubt in India; particularly public sector banks will need to use technology to improve operating efficiency and customer services. The focus on technology will increase like never before to add value to customer services, develop new products, strengthen risk management. To sum up the literature review indicates that worldwide the importance of e-banking is emphasized and use of the technology lead to increase the productivity. The emergence of internet banking has made easy access to the customers at large.
- **A.J.Joshua, Moli P Koshy(2011)**, in this study majority of the respondents have computer and internet access and they are also mostly proficient in using them. The users of internet banking, tele banking and mobile banking are in general found to be spending more hours using computers and internet than non-users of these services. The hours of computer usage, the frequency of internet usage and hours of internet browsing were found to be significantly higher among users as compared to non-users of technology enabled banking selfservice. It concludes that banks can target those customers whose usage of computers, internet and other technology products are relatively on the higher side.
- **Trivedi & Patel (2013)** analysed the problems faced by customers while using e-banking facilities in India. It observed that most of the customers know about the e-banking services offered by their bank. The study found that there is a significant difference amongst different problems identified while using e-banking services. It also found that some problems affect more and some problems affect less in use of banking services. It concluded that all the reasons are not equally responsible for not using e-banking services.

OBJECTIVES OF THE STUDY

- To study the need and benefits of E-banking.
- To study the challenges faced in E-banking.
- To study the opportunities available in E-banking

- To enlighten the measures adopted for safe banking

RESEARCH METHODOLOGY

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 websites of RBI.

NEED AND BENEFITS OF E-BANKING

Many inventions and revolutions have taken place in the history of banking but no such things have changed the business of banking as fast as the e-banking revolution. Now-a-days, banks all over the world are making their business strategies in the light of new opportunities offered by e-banking. E-banking has facilitated banks to scale borders, change strategic behaviour and thus bring about new possibilities. E-banking has encouraged real banking behaviour closer to neoclassical economic theories of market functioning. As there is presence of absolute transparency of the market, clients (both business and retail) can make comparison of the services provided by various banks easily. For example, at every click on the internet you'll face your competitors. If clients are not happy and satisfied with the products, prices or services offered by a particular bank, they are capable of changing their banking partner very easily as compared to what happens in the physical or real bank-client relationship. Therefore, from the view-point of banks, use of the internet has significantly reduced the physical costs of banking operations. Thus, e-banking services whether delivered online or through other mechanisms, have spread quickly in recent years. The primary benefit of e-banking from the bank customers' point of view is significant saving of time by the automation of banking services processing and introduction of an easy maintenance tools for managing customer's money. Other benefits of E-banking are also there such as reduction in costs in accessing and using the banking services, increase in comfort and timesaving, quick and continuous access to information, better management of cash, convenience in performing banking transactions, speed in getting response, proper management of funds.

CHALLENGES IN E-BANKING

- 1. 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.
- 2. Strengthening the Public Support:** In developing countries, in the past, most e-finance initiatives have been the result of joint efforts between the private and public sectors. If the public sector does not have the necessary resources to implement the projects it is important that joint efforts between public and private sectors along with the multilateral agencies like the World Bank, be developed to enable public support for e-finance related initiatives.
- 3. 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.
- 4. 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.

5. **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.
6. **Non- Performing Assets (NPA):** Non-performing assets are another challenge to the banking sector. Vehicle loans and unsecured loans increases N.P.A. which terms 50% of banks retail portfolio was also hit due to upward movement in interest rates, restrictions on collection practices and soaring real estate prices. So that every bank have to take care about regular repayment of loans.
7. **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.
8. **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.
9. **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. According to the IMAI Report (2006), 43% 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.
10. **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. While using e-banking facilities lot of questions arises in the mind of customers such as: Did transaction go through? Did I push the transfer button once or twice? Trust is among the significant factors which influence the customers' willingness to engage in a transaction with web merchants.
11. **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. According to the study consumers' worry about their privacy and feel that bank may invade their privacy by utilizing their information for marketing and other secondary purposes without consent of consumers.

OPPORTUNITIES

- 1. 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.
- 2. 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.
- 3. 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.
- 4. Internet Banking:** It is clear that online finance will pick up 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.
- 5. 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.
- 6. 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. The Indian customers now seek to fulfil his lifestyle aspirations at a younger age with an optimal combination of equity and debt to finance consumption and asset creation. The consumer represents a market for a wide range of products and services he need a mortgage to finance his house, an auto loan for his car, a credit card for on-going purchases, a bank account, a long term investment plan to his children's higher education, pension plans for his retirement, a life insurance policy the possibilities are endless and this consumer does not live just in India's top ten cities. He represents across cities, towns and villages i.e. in rural areas. Consumer goods companies are already tapping this potential it is for the banks to make the most of the opportunity to deliver solutions to this market.

MEASURES TO BE TAKEN FOR SAFER E-BANKING

Internet banking allows us to transact in a fast and convenient way. Unlike traditional banking to make us wait in an unending queue, internet banking functions are just a few clicks away. However, this facility needs safety and secured way of transacting as the risk of phishing is high. The following are some of the measures to ensure secure banking:

- 1. Password:** We need to change our passwords at regular intervals in order to keep our accounts safe. One of the best practices is to have a password as a combination of upper case and lower case letters, numbers and special characters.

2. **Usage of Public Computers:** Logging in to bank account from cyber cafes or libraries is not recommended by banking experts. Chances of passwords being traced or seen by others are usually high in such places. One should make sure to clear the cache and browsing history, and delete all the temporary files from the computer. Also, never allow the browser to remember ID and password; this leads to hacking.
3. **Confidentiality:** No bank will ask for any confidential information via phone or email. We have to beware of apparent phone call from the bank or an email requesting such details; do not give out login information. Sharing login credentials with friends and family is not advisable either.
4. **Regular check is must:** Check your account after making any transaction online. Verify whether the right amount has been deducted from your account. If you see any discrepancies in the amount, inform the bank immediately.
5. **Anti-virus software:** In order to protect your computer from new viruses, ensure that you always use licensed anti-virus software. Pirated versions of anti-virus software may be available for free, but they may fail to protect your computer from new viruses prevalent in the online world. In addition, you will get notifications for updates in the software periodically. Make sure that you keep your anti-virus updated, so that your confidential information is always protected.
6. **Disconnect the internet connection when not in use:** Most broadband users do not disconnect the internet connection on their computer when they are not using it. Malicious hackers can access your computer via an internet connection and steal your confidential banking information. To keep your data protected, ensure that you disconnect from the internet when you do not require it.

CONCLUSION

With the time, the concept of internet banking has got attention in the Indian context. Most of the banks have already implemented the e-banking facilities, as these facilities are beneficial to both i.e. banks as well as consumers. 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. Thus, there is a paradigm shift from the seller's market to buyer's market in the industry and finally it affected at the bankers level to change their approach from "conventional banking to convenience banking" and "mass banking to class banking". The shift has also increased the degree of accessibility of a common man to bank for his variety of needs and requirements. In years to come, e-banking will not only be acceptable mode of banking but will be preferred mode of banking.

RECOMMENDATIONS FOR FURTHER RESEARCH

A lot of research has been done on internet banking, but still there is need for more research to educate people about internet banking. Internet banking is still a new concept in India, though it has been here for quite some time. There are plenty of issues that need to be explored from various perspectives such as Comparison between banks to see what role the banks are playing individually to educate their customers.

- A research should be conducted from the banks point of view.
- Some comparisons between the Indian banks and foreign banks may be handy.

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