



E-BANKING: STRATEGIES AND MODEL

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Abstract

In the 21st century, information technologies have ushered a new wave of financial innovation —electronic banking (e-banking). The pioneer in launching e-banking in India was the ICICI bank. The Indian banking sector has seen a complete change from the traditional banking. Various types of e-banking, its' merits & demerits have been discussed. In spite of several advantages of e-banking, there also lie certain challenges about which the banks as well as the customers are required to be vigilant.

Introduction

Can you imagine life without internet today? No doubt, you can live without internet, but a life as a laggard and in isolation. . Information Technology (I.T.) has become an essential means in today's world. It is a part and parcel of life in the 21st century.

If we talk about economy then in most of the developing countries monetary transactions are made through the exchange of bank notes and coins. However, this trend is now giving way to a modern system where the currency and notes are converted to data, which are in turn transmitted through IT enabled services. The rapid technological progress and development has changed things in the financial market too. The transactions are swift from the customer and service provider, unlike the traditional banking operation. This transfer process makes money to be carried in information storage medium such as cheques, credit cards and electronic means than its pure cash form.

The banking industry has undergone tremendous changes since the mid-1990s; post liberalization and globalization in the form of innovative use of information technology and development in electronic commerce. This development made e-banking replace the traditional branch operations.

Banks today operate in a highly globalized, liberalized, privatized and a fiercely competitive environment. Information Technology has introduced a new business model. It is a key step towards the improvement of the banking industry. The emergence of electronic banking can also be attributed to the rise of internet. Rural India has 18% of the bank penetration to serve 74% population and share 30 % deposit accounts out of 428 million of the new mobile subscriptions every month. With the stupendous success of the “Pradhan Mantri Jan Dhan Yojana” an overwhelming part of the Indian population has bank accounts. The next step is to introduce and popularize electronic banking among them.

E-Banking: The Indian Scenario

The delivery of banking services and products through electronic channels via telephone, mobile phones, internet etc. is called E- banking. Internet banking or E-Banking means the use of the Internet to carry out banking activities like transfer of funds, paying bills, viewing account balance, payment of mortgages , purchasing financial instruments etc.

E-banking came into existence in the early 20th century in the UK and USA. It became prominently popular during 1960s through electronic funds transfers and credit cards. In the early 1980's web-based banking came into existence in Europe and USA. In India e-banking is quite a recent phenomenon. The pioneer in launching internet



banking in India was ICICI Bank followed by Citibank and HDFC Bank. The Government of India and the Reserve Bank of India facilitate the development of e-banking in India. The Government of India enacted the Information Technology Act, 2000 which provided legal recognition to electronic transactions and electronic commerce. The Reserve Bank is the monitoring and reviewing authority on e-banking to make sure of the issues of the financial security and stability. A committee headed by Dr. K.C. Chakrabarty prepared the IT Vision Document- 2011-17”, which is a blueprint for convergence of Information Technology in the banking sector.

E- Banking is the term for new age banking. E- banking is also called Online banking, e- payment and internet banking .E-payment is defined as a means whereby banking businesses are transacted through automated processes and electronic devices such as personal computers, telephones, and fax machines, Internet card payments and other electronic channels. The electronic communications used in Internet banking include: Internet, e-mail, e- books, data base and mobile phones.

Indian banks offer the following services to their customers:

- Automated Teller Machines (ATMs)
- Internet Banking
- Mobile Banking
- Phone Banking
- Tele-banking
- Electronic Clearing Services
- Electronic Clearing Cards
- Door Step Banking
- Electronic Fund Transfer

According to report on “Trends and Progress of Banking in India” by RBI, from 2007-2010, a whopping 93.02% of the total bank branches in India are fully computerized and 70.2 % offer core banking services (Table-1). However, 6.73 % of branches still remain partially computerized.

Table-1: Computerization of Public Sector Banks

Year /Category	Fully Computerised Branches	GR	Branches Under Core Banking	GR	Already Computerised Branches	GR	Partially Computerised Branches	GR
2007	85.6	-	44.4	-	41.2	-	13.4	-
2008	93.7	9.46	67.0	50.9	26.6	35.4	6.3	52.9
2009	95.0	10.98	79.4	78.8	15.6	62.1	5.0	62.6
2010	97.8	14.25	90.0	102.7	7.8	81.1	2.2	83.5
Average	93.02		70.2				6.73	

Source: Report on Trends and Progress of Banking in India, RBI, Mumbai, Various Issues.

The electronic payment systems such as Electronic Clearing Service (ECS) credit and debit and National Electronic Fund Transfer (NEFT) have improved the speed of financial transactions across the country (Table-2). Electronic Clearing Service (ECS) is one of the new electronic banking services. ECS is a non-paper based movement of funds. ECS consists of- Electronic Credit Clearing Service and Electronic Debit Clearing Service. ECS lowers the administration cost substantially and ensures profitability and productivity to the banks. National Electronic Fund Transaction (NEFT) is a deferred net settlement system and is an improvement over other modes in terms of security and processing efficiency. Around 46,300 bank branches offer this facility throughout the country.



Table-2: Value of Electronic Transactions of Scheduled Commercial Banks (Value in Rs Cr)

Year/Transaction	ECS Credit		ECS Debit		NEFT	
	Volume	GR	Volume	GR	Volume	GR
2006-07	69.0	-	75.2	-	4.77	-
2007-08	78.3	13.48	127.1	69.01	13.3	178.8
2008-09	88.3	27.97	160.0	112.76	32.1	572.9
2009-10	98.1	42.17	149.3	98.53	66.3	1289.9
2010-11	117.3	70.0	156.7	108.38	132.3	2673.6
Average	90.2		133.66		49.75	

Source: Report on Trends and Progress of Banking in India, RBI, Mumbai, Various Issues.

E- Banking has brought a sea change in the banking sector in terms of management, marketing, operations and decision making. Every organization wants to tap the benefits from technology. For the banks too, E-banking brought in a reduction of cost through substantial improvement in efficiency. The electronic system of banking has become ideal for banks in meeting customers' expectations and building a healthy relationship with the customers.

Internet banking started with real time access to information about interest rate, account balances and computing loan eligibility. Later, services like online bill payment, transfer of funds, digital signature were also added. Internet has created opportunities for e-commerce and changed the traditional global and Indian trading scenario. The mobile phone has made the customer carry the bank in his pocket. Mobile banking has taken E-banking to completely a new level.

Customers Attitude towards Internet/Online Banking

Online banking has gained acceptance of the bank and the customer in recent years. First, banks can save costs by offering online banking services. It has been proven that online banking channel is the cheapest delivery channel for banking products once established (Giglio 2002.) Second, banks can reduce their branch networks and downsize the number of service staff, which opens the way for online banking as many customers feel that branch banking requires too much of their time and effort. Therefore, time and cost savings and freedom from place have been found to be the main reasons underlying online banking acceptance (Howcroft *et.al.*2002). The business benefit of the internet, according to Gow (1997) is to generate additional revenue, improve customer service, extend marketing and increase cost saving.

With the Indian government stressing on the creation of a "Digital India" the move to make e-banking the norm among customers has gained tremendous momentum. Agarwal *et al.* (2009) have undertaken a study to understand the perception and attitude of Indian customers and their satisfaction level with the various services offered through the e-banking mode by banks in India. The study reveals that customer satisfaction with security and trust provided by the e-banking site has the maximum impact on overall satisfaction of customers with e-banking, followed by customer satisfaction with convenience and ease of use. Stamoulis *et al.* (2002) studied the challenges faced by banks in assessing the value of its main e-banking channel in operation. The study used a model which comprises five different perspectives each having a corresponding set of metrics. These were used to assess the business value along two viewpoints:

- a. The internal view where the channel is considered as a resource whose utilization must be maximized; and
- b. The external view where the channel is an interface to the bank's customer base whose usage should directly support CRM.



The impact of the use of e-banking by customers on the relationship they develop with their main bank was also studied by Proenca and Silva(2009).This study made a relationship between the dimensions: the use of e-banking and the relationship marketing approach in banking. The results showed that the relationship marketing approach is sensitive to the intensity of use of e-banking as well as to the diversity of operations performed there. The study revealed a strong association between the duration and maintenance of relationship and the diversity of places to e-banking.

The internet revolution is slowly and steadily sweeping India. The tool of the revolution i.e. the mobile phone is in the pocket of the people. One touch and the smart phone take you to a new world. Online shopping, recharge, airline booking, cab booking service, online games etc are all facilitated by e-banking. No need to step out of your comfort zones, just touch and the transaction is complete. Thus there is no need to visit the bank branch for day to day affairs. The acceptance of technology has a direct bearing on acceptance of e-banking. Consumers use online banking for the benefit it provides in comparison to other banking delivery channels. (Pikkarainen *et.al.* 2004). Similar findings were also reported by Perumal and Shanmugham (2004) wherein the study revealed that accessibility of Internet, awareness of e-banking, and customers' reluctance to change are the factors that significantly affected the usage of e-banking in Malaysia. The study indicated greater promotional effort on the part of banks to create greater awareness of e-banking and its benefits which is important for the success of e-banking services patronage.

India is a country of diverse economic, geographic, social, ethnic and cultural identities. The cultural and traditional diversity also plays a vital role in the development of e-banking industry (Wang *et al.* 2009).

Advantages of E-Banking (in a nutshell)

- Reduction in costs for availing banking services.
- Transactions can be made 24 hours, without requiring the physical interaction with the bank.
- The access to banking information is faster than ever.
- There is an increase in the authenticity of the cash cycle and efficiency of business.
- Convenience to the customer as banking transactions can be performed from the comfort of the place a customer wants to.
- The response of the medium is very fast. Now customers don't need to stand in long queues in the bank branch.
- Customers can download their history of the accounts and manage the funds effectively.

Challenges in E- Banking

According to Lee(2009), the various advantages of online banking form a positive factor named perceived benefit. In addition, drawing from perceived risk theory, five specific risk facets—(1) Financial, (2) Security/privacy, (3) Performance, (4) Social, and (5) Time risk—were synthesized with perceived benefit.

The challenges which the banking industry faces in making e-banking popular are:

- Huge infrastructure and manpower training are required before developing countries can adopt the global technology for their local requirements. According to Society for Worldwide Interbank Financial Telecommunications (SWIFT) full scale use of E-banking has not evolved in many developing countries due to the lack of infrastructure and required technical expertise.
- The most serious threat faced by e-banking is that it might not be safe and secure all the time. There may be loss of data due to technical faults.
- The economic viability of E-banking depends on the transactions made through internet. Substantial profit will be generated only if a large number of transactions are routed over the web.



- In India, illiteracy is still very high. Many people cannot understand the intricacies of E-banking and would prefer the traditional banking system.
- On the other side of this technological boom are governance, legal, operational, and reputational issues of banking. RBI has to be on its toes to ensure the safety and soundness of the domestic banking system market discipline and protecting customer rights and the public trust in the banking system.
- The banks need to make the customers aware of the basis of operating their accounts through E-banking.

Conclusion

In India, E-banking is in its early stage. Indian banks are making huge efforts for the adoption of advanced technology and installation of e-delivery channels but still masses are either unaware or look at it with suspicion. Moreover, lack of internet accessibility also remains a hurdle in propagation of internet banking. However, the younger generation in India is beginning to see the convenience and benefits if e-banking. In years to come, e-banking will not only be acceptable mode of banking but will be the normal mode of banking.

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