

# E-Banking: Opportunities and Challenges

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## Abstract:

Today most of the banking happens while you are sipping coffee or taking an important call. ATMs are at your doorstep. Banking services are accessible 24x7. There are more plastic cards in your wallet than currency notes. A huge part of this change is due to advent of IT. Banks today operate in a highly globalized, liberalized, privatized and a competitive environment. In order to survive in this environment banks have to use IT. Indian banking industry has witnessed a tremendous developments due to sweeping changes that are taking place in the information technology. Electronic banking has emerged from such an innovative development. The objective of the present paper is to study and analyze the progress made by Indian banking industry in adoption of technology. The study is secondary based and analytical in nature. The progress in e-banking in Indian banking industry is measured through various parameters such as Computerization of branches, Automated Teller Machines, Transactions through Retail Electronic Payment Methods etc. Statistical and mathematical tools such as simple growth rate, percentages and averages etc are used. The paper also highlights the challenges faced by Indian banks in adoption of technology and recommendations are made to tackle these challenges. The paper concludes that in years to come e-banking will not only be acceptable mode of banking but preferred mode of banking.

**Keywords:** E-banking, Information Technology, Automated Teller Machines.

## Introduction:

Information Technology has become a necessary tool in today's organizations. Banks today operate in a highly globalized, liberalized, privatized and a competitive environment. In order to survive in this environment banks have to use IT. IT has introduced new business paradigm. It is increasingly playing a significant role in improving the services in the banking industry. Indian banking industry has witnessed a tremendous developments due to sweeping changes that are taking place in the information technology. Electronic banking has emerged from such an innovative development. Modern technology is seen as a panacea for most of the ills that the banking sector faces today. Even at present, India is a relative unbanked country as the credit-to-GDP ratio is one of the lowest in the developing economies. So banks are facing the dual challenge of increasing penetration and high growth trajectories. The banking industry can kill two birds with one stone that is with help of technology. Tremendous progress took place in the field of technology which has reduced the world to a global village and it has brought remarkable changes in the

banking industry. Branch banking in the brick and mortar mode has been transformed into click and order channel mode.

### Review of Literature:

**A.J. Joshua, Moli P Koshy (2011)**, in this study majority of the respondents has 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 self service. 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.

**Haq & Khan (2013)** analysed the challenges and opportunities in the Indian Banking sector. The study showed that only 28 per cent banking clients were using internet banking after evaluating the population characteristics. It found that there was no significant relationship in between age and use of cyber banking. It also depicted that there is no relation in between gender and the adoption of internet banking. It observed that qualification in terms of education and income of the respondents were playing the role in the acceptance of online banking. The study suggested that it is the need of time that financial literacy of the users should be increased through various programs which should be run by banks to increase the awareness of internet banking.

**Vijayakumar Rajarathinam and Charndra Kumar Mangalam (2013)**, has indicate that users were influenced by factors such as quick direct access, ease of use, anytime anywhere banking, status symbol, safety and security. The influence of the factors varied from the type of users. Consumers have different levels of competency in internet banking usage. The higher the consumers felt about their competency in handling internet banking, higher was their frequency in usage of internet banking. Moderate and novice of internet banking users had relatively lesser levels of usage satisfaction.

### Objectives of the Study:

- To study the current status of financial innovations in Indian banking sector.
- To identify various e-banking services/products adopted by India.

- To study the challenges faced in E-banking.
- To study the opportunities available in E-banking.

### **E-Banking and its Evolution:**

E-Banking is the term that signifies and encompasses the entire sphere of technology initiatives that have taken place in the banking industry. E-banking is a generic term making use of electronic channels through telephone, mobile phones, internet etc. for delivery of banking services and products. The concept and scope of e-banking is still in the transitional stage. E-banking has broken the barriers of branch banking.

E-banking came into being in UK and USA in 1920s. It became prominently popular during 1960s through electronic funds transfers and credit cards. The concept of web-based banking came into existence in Europe and USA in the beginning of 1980s. It has been estimated that around 40 percent of banking transaction would be done through Net.

### **E-Banking in India:**

In India e-banking is of fairly recent origin. The traditional model for banking has been through branch banking. Only in the early 1990s there has been start of non-branch banking services. The good old manual systems on which Indian Banking depended upon for centuries seem to have no place today. The credit of launching internet banking in India goes to ICICI Bank, Citibank and HDFC Bank followed with internet banking services in 1999. Several initiatives have been taken by the Government of India as well as the Reserve Bank to facilitate the development of e-banking in India. The Government of India enacted the IT Act, 2000 with effect from October 17, 2000 which provided legal recognition to electronic transactions and other means of electronic commerce. The Reserve Bank is monitoring and reviewing the legal and other requirements of e-banking on a continuous basis to ensure that e-banking would develop on sound lines and e-banking related challenges would not pose a threat to financial stability. A high level Committee under chairmanship of Dr. K.C. Chakrabarty and members from IIT, IIM, IDRBT, Banks and the Reserve Bank prepared the IT Vision Document- 2011-17, for the Reserve Bank and banks which provides an indicative road map for enhanced usage of IT in the banking sector. To cope with the pressure of growing competition, Indian commercial banks have adopted several initiatives and e-banking is one of them. The competition has been especially tough for the public sector banks, as the newly established private sector and foreign banks are leaders in the adoption of e-banking.

### Current Status of E-Banking in India:

Internet Banking has become an integral part of banking system in India. The concept of e-banking is of fairly recent origin in India. Till the early 90's traditional model of banking i.e. branch based banking was prevalent, but after that non-branch banking services were started. The credit of launching internet banking in India goes to ICICI Bank. Citibank and HDFC Bank followed with internet banking services in 1999. The Government of India enacted the IT Act, 2000 with effect from October 17, 2000 which provided legal recognition to electronic transactions and other means of electronic commerce. The Reserve Bank is monitoring and reviewing the legal and other requirements of e-banking on a continuous basis to ensure that e-banking would develop on sound lines and e-banking related challenges would not pose a threat to financial stability. According to report of RBI in January 2016, there are 1,96,079 ATM and 13,37,310 point of sale devices in India. To cope with the pressure of growing competition, Indian commercial banks have adopted several initiatives and e-banking is one of them. The competition has been especially tough for the public sector banks, as the newly established private sector and foreign banks are leaders in the adoption of e-banking. Indian banks offer to their customers following e-banking products and services:

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

### The Three Broad Facilities that E-banking offers are:

- **Convenience** - Complete your banking at your convenience in the comfort of your home.
- **No more Qs** - There is no queue at an online bank.
- **24x7 Service** - Bank online services are provided 24 hours a day, 7 days a week and 52 weeks a year.

### Opportunities in 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.

- **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.
- **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.
- **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.

### Challenges in E-Banking:

- **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 IAMAI Report (2006), 43% of internet users are not using internet banking in India because of security concerns. So its a big challenge for marketers and makes consumers satisfied regarding their security concerns, which may further increase the online banking use.
- **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.

- **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.
- **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.
- **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.
- **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.
- **Implementation of Global Technology:** An adequate level of infrastructure and human capacity building is required before the developing countries can adopt global technology for their 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.
- **Non-Performing Assets (NPA):** Nonperforming 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.
- **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.

### 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.

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