

# E-Banking and its impact on the productivity of Public and Private sector banks: A case study\*

\*Subhash N, Research Scholar, Department of Commerce and Management, Garden City University, Bengaluru  
\*Dr.Y.V.Rao, Dean-R&D and Research Supervisor, Garden City University, Bengaluru

## Abstract:

The Banking system has been growing with technological development practices and innovative products in Banks to go beyond their basic scope, deposit mobilization and payment functions with development of modern banking. In the present context has made progress with the help of computer and internet technologies with fast growing innovative investments and expense products created a market in banking sector attached to financial innovative activities.

During the period of two decades the global financial system was characterized by a strong innovation in the sphere of secondary markets which gave birth to new innovative financial products that the financial intermediaries can use to hedge their specific risk. And also after global liberalization process there has been an increasing competition in both within and outside in the banking industry particularly financial innovation.

The growing competition and dynamic consumer requirement and wants in this competitive business world, banking institutions needed to use competitive strategies in order to gain competitive edge. Introduction of new technologies, globalization, changing consumer needs have led to changes in organizational business practices.

The economy of the country is on the verge of a metamorphosis, with several policy initiatives are at the implementation stage. Favorable business sentiment, enhanced consumer confidence and well controlled price rise may likely prop-up India's economic growth. Enhanced sanction of expenditure for infrastructure, faster implementation and execution of the projects and carrying on with the reforms are expected to provide fillip to the economic growth. Owing to all these factors Indian banking industry is poised for robust growth as there would be a lot of demand from the growing business for bank credit.

**Key Words:** Financial Innovations; Banking Developments: ICT application: Financial Products

## Introduction:

Now ah day the internet banking has become the main part of attraction for the each and every person in the world. Everyone is getting impressed to the internet banking. The reason why the people choosing the

internet banking is they provide the full time security for the in respect of funds transfer , the easy way of transferring funds are also the reason for the internet banking .brokerage for the house loans , and the insurance companies for the health and other insurance, these are also the type of regulations which they are used for developing the Indian nation on the past year of 1990s . now ah days there is a tremendous growth in the electronic commerce ,this shows the current survey of the current internet banking is useful for savings account , revenue banking also playing a major role in the scope of internet accounting.

However, the bank are now ah days providing many public policies and public services in the form of internet banking , and the government agencies has been raised for the public satisfaction . Internet banking is more reliable for the satisfaction of the customers and the banking accounts it is being more sufficient for the people.

### **Statement of the Problem:**

The aim of the research paper is to analyze the impact of key financial innovations on the performance of the commercial banks in India. It had observed that the adaptation of the technology should enhance the profitability of the banks. One of the objective of this study had concentrated on financial innovations that is assumed to have an effect on bank performance by internet banking usage and technology applications

### **Objectives:**

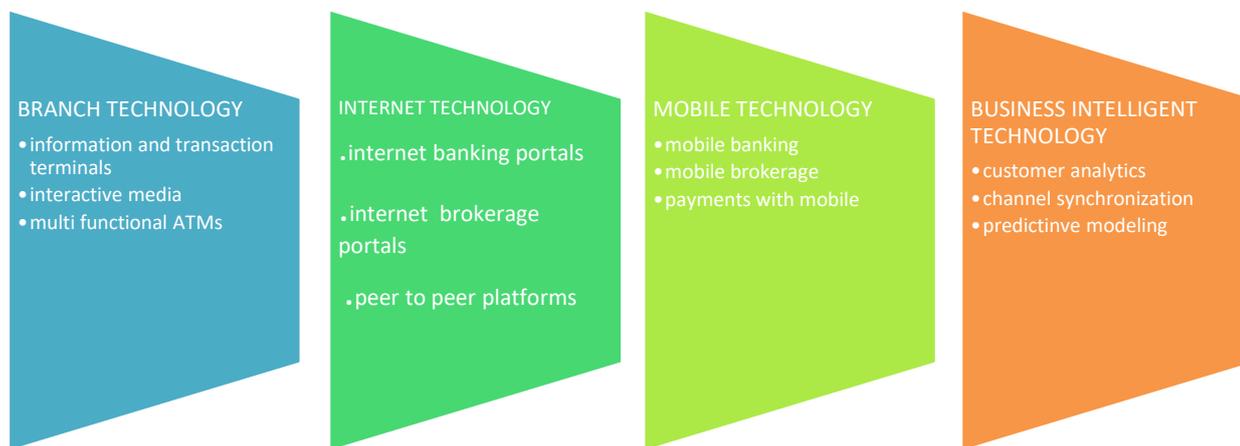
1. To analyze the affect of key factors on the performance of commercial banks in India
2. To study the strategic factors of innovations have on profitability of commercial banks in India
3. To study the technology factors contribution towards development of Banking business
4. To suggest measures to improve the overall performance of commercial banks in India

### **Research Methodology:**

The pilot study covered both primary and secondary data with selected respondents of 100 members representing from commercial banks managers, credit officers and customers.

### **Banking Technology:**

Fig 1: Technology - led banking services: innovation in the areas that scored highest among customer preferences- internet, mobile, branch and business intelligence.



**Fig. 2: Six emerging trends in customer needs, behavior, and preferences**



**Fig.3: Changes in the number of customer banking relationships in response to recent developments in the banking industry and financial markets (over the past two years)**



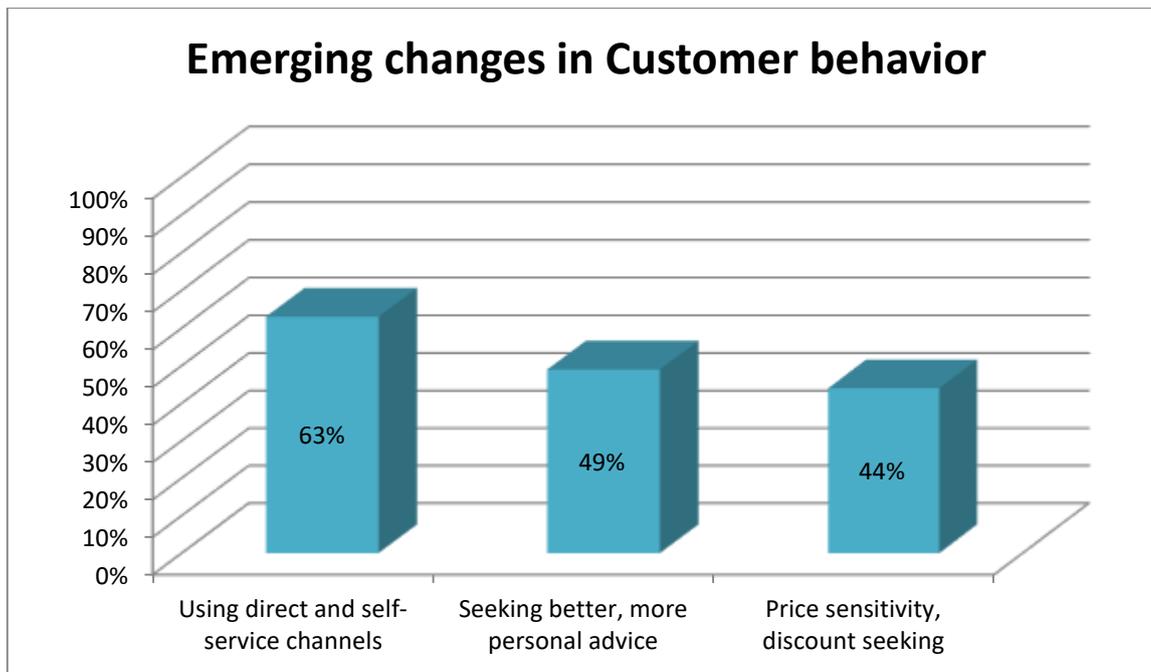
At the same time, the use of self service and direct channels has become a top priority for the majority of banking customers.

Technology Advancements:

Mobile Internet	Inexpensive and increasingly capable mobile devices and Internet connectivity enable services to reach individuals and enterprises anywhere
Cloud technology	Computing capacity, storage, and applications delivered as a service over a network or the Internet, often at substantially lower cost
Automation of knowledge	Intelligent software for unstructured analysis, capable of language interpretation and judgment-based tasks; potential to improve decision quality
Digital payments	Widely accepted and reliable electronic payment systems that can bring millions of unbanked Indians out of the cash economy
Verifiable digital identity	Digital identity that can be verified using simple methods, enabling secure delivery of payments and access to government services

Internet of Things	Networks of low-cost sensors and actuators to manage machines and objects, using continuous data collection and analysis
Intelligent transportation and distribution	Digital services, used in conjunction with the Internet of Things, to increase efficiency and safety of transportation and distribution systems
Advanced geographic information systems (GIS)	Systems that combine location data with other types of data to manage resources and physical activities across geographic spaces

**Fig.4: Top 3 Emerging changes in customer behavior that will impact the banking business over the next three years (in %)**



This trend is accompanied by the customers' need for better and more personalized services. In addition, customers have become more price-sensitive as indicated by the change in customer reactions to pricing strategies for banking products and services.

As a result of this changing customer behavior, banks need to offer innovative and more personalized services investing in the digital channels in order to attract and retain customers. Only by doing so can they gain a competitive edge in the fight for new customers and win back the trust of their existing customers.

#### **Multi Channels:**

The survey conducted to banking customers, out of 200 67% of customers prefer to interact with their bank through multiple channels. Almost one third of customers (34%) rate the availability of banking services through the branch, Internet, and mobile channels are very important. Only 21% of customers still prefer to interact with their bank through a single channel such as through branch, Internet, or mobile banking.

**Fig.5: Customer channel preferences for interaction with the bank**

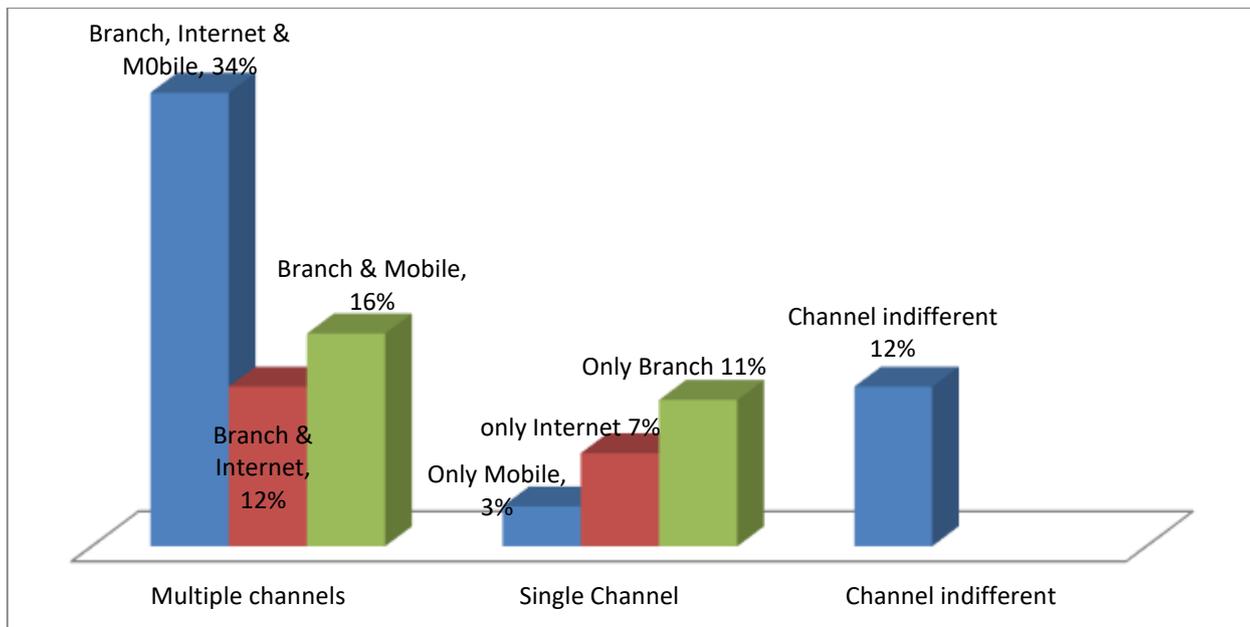


Fig.6: Change in the use of banking channels following the global financial crisis and recession.

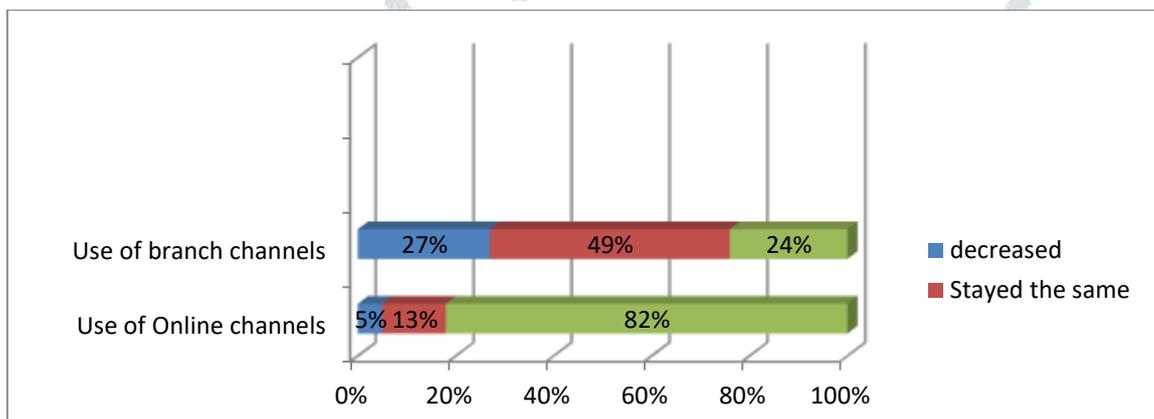
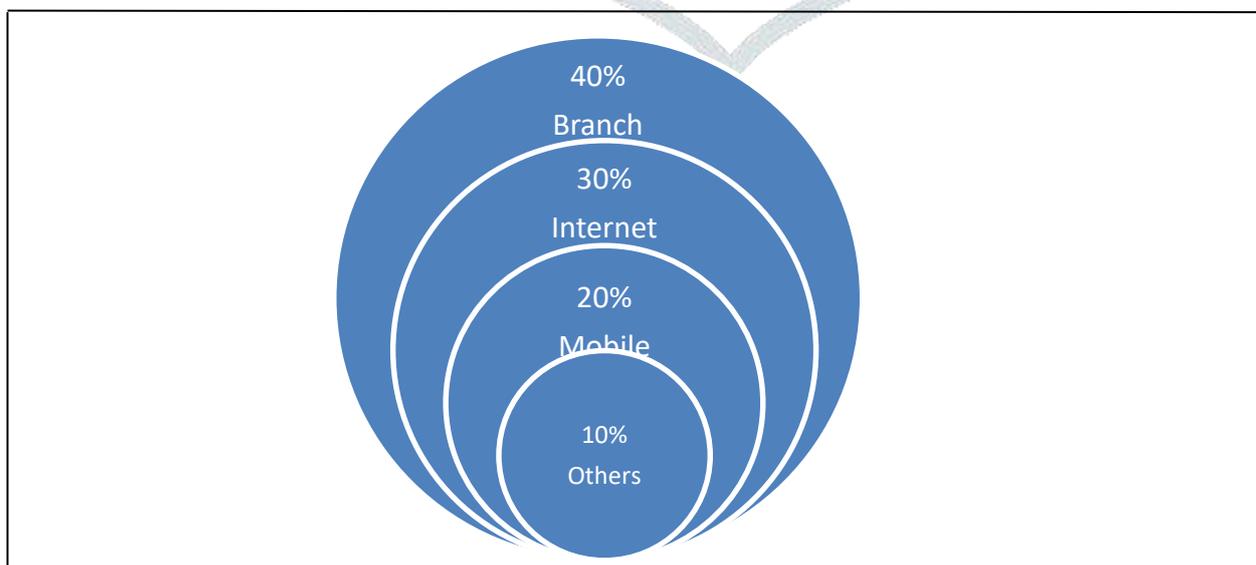


Fig.7: overview showing percentage of banking activities predicted to be conducted in various banking channels in 2013

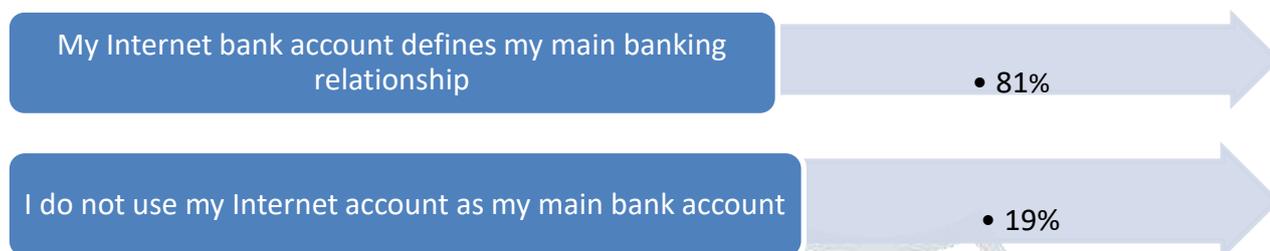


Nevertheless, it is predicted that approximately 30% of banking activities will be conducted via the Internet and 20% through the mobile channel by 2013.

**Online Channels:**

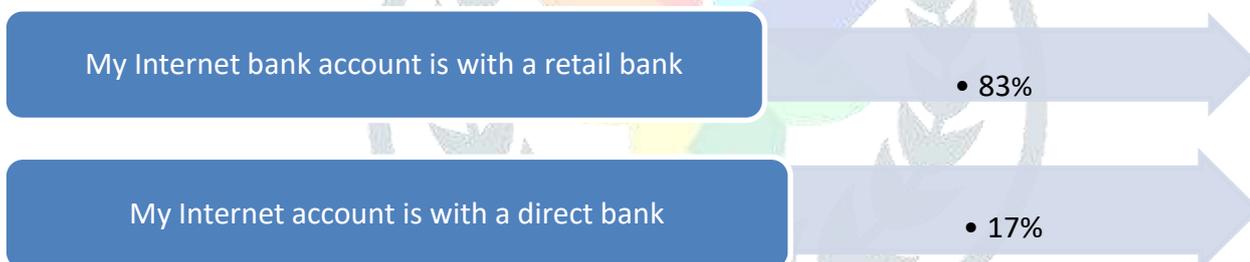
Customers use Internet banking up to 80% as the main channel for interaction with their preferred bank.

**Fig.8a: Percentage of customers that use the internet account as their main bank account**



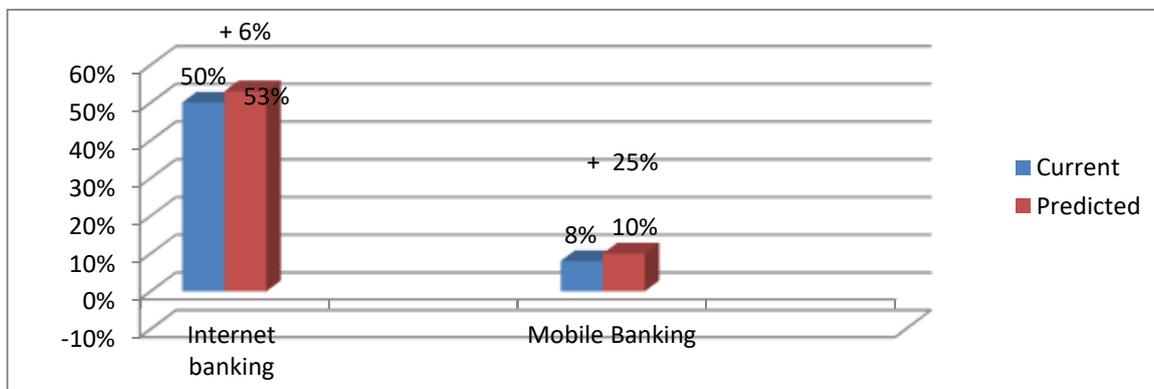
The majority of the customers (81%) conduct their main banking relationship through Internet banking. Customers request direct and simple access to information here and now, and use direct channels to obtain greater transparency and control.

**Fig.8b: Percentage of customers that have their internet account with a bank**



In addition, 83% of the customers have their Internet account with a retail bank. This emphasizes the trend that Internet banking needs to be an integral part of a bank’s mix of services.

**Fig. 9: Current and predicted (next 12months) usage of Internet and Mobile banking**



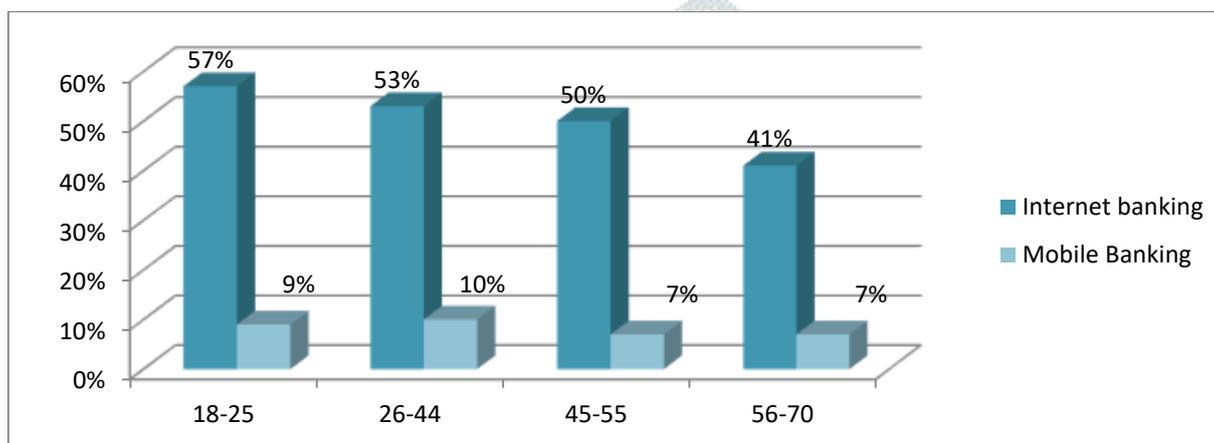
More customers use Internet (50%) than mobile banking services (8%). However the latter is strongly emerging as an alternative banking channel with a projected usage growth of 25% during the next 12 months, compared to a projected growth of 6% for Internet banking services.

Therefore, banks need to establish a customer-centric infrastructure and build and improve capabilities for the “pull” customers using innovative technologies and tactics. Integrating Internet and mobile channels into this customer-centric infrastructure will be a key success factor for banks in the future.

### Demographics:

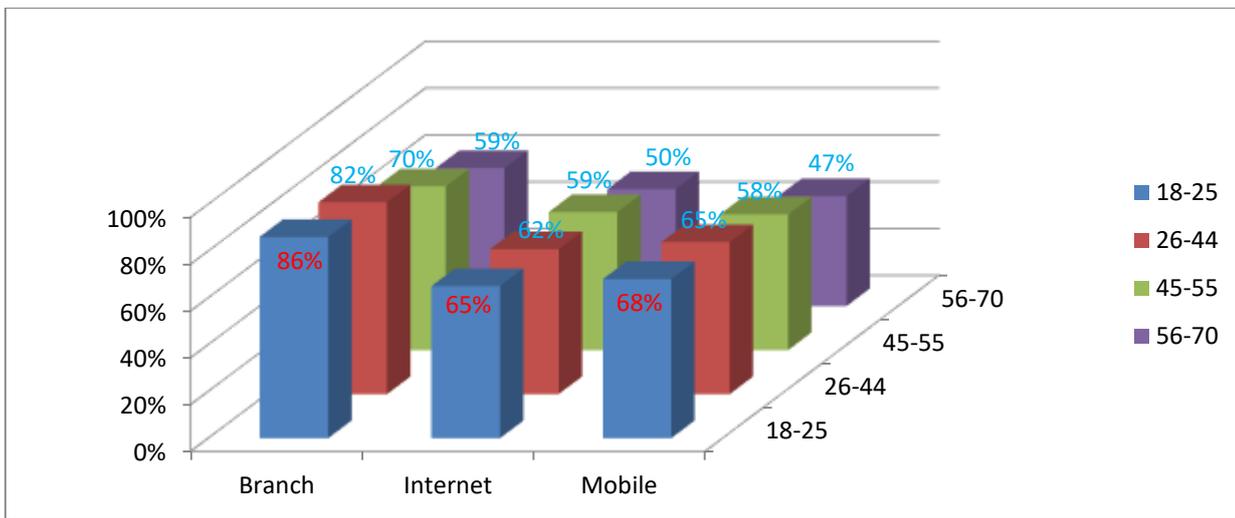
Innovation in the banking channels is a strong customer value proposition for all generations

Fig.10: Usage of online and mobile banking channels (by age group)



57% of customers that are between 18 and 25 years old, use Internet banking, however the older generation are not significantly lagging behind, with a usage rate of 41%. On average, one out of two customers uses Internet banking technology across all age groups. On the other hand, the use of the mobile banking channel has not yet been widely adopted. However it is gaining momentum, especially for the Younger generation. Innovation in banking channels can therefore be considered a strong value proposition across all age groups. In general, a higher percentage of the younger generation – compared to the older one – considers innovative channel technologies to be important. This holds true for each channel – branch, Internet and mobile (Fig. 11a–11c).

### Fig. 11: Importance of banking services through various channels (by age group)



Services offered through the branch are still considered more important across all age groups than services offered through the Internet and mobile banking channels. Nevertheless, customers across all generations are embracing services through the Internet and mobile channels and expect banks to offer services through these channels (Fig. 11b and 11c).

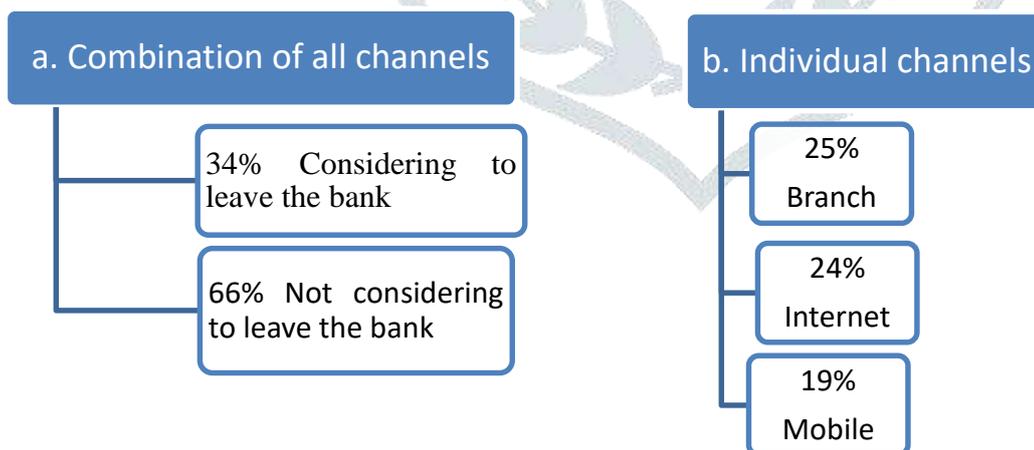
Despite the homogeneous preferences for the various age groups, banks need to be able to address the needs of each customer generation across all channels.

**Banking Channels:**

**Every third customer is willing to change to a bank that offers better technology-based services**

A consistent services offering across all banking channels leveraging innovative technologies is essential for the banking customer.

**Fig.12: Percentage of customers who may change banks due to better services provided through innovative channel technologies by another bank**



34% of all customers would change their banking relationship to another bank that make such an offering and 25% of the survey participants would change their bank due to better services offered through branch technology provided by another bank.

Also regarding direct channels – Internet and mobile – 24% and 19%, respectively, of customers would change to another bank.

It is apparent that customer loyalty can be significantly influenced by the differentiation that is created through technology-led service innovation across all banking channels.

In conclusion, changing customer behavior and preferences are making multichannel integration as well as customer dialogue and experience management increasingly important.

This leads to a number of imperatives for banks. The availability of innovative, technology-led banking services is a top priority for the banking customer of the future, in order to fulfill their demand for simplicity, self-control, mobility, personalized service, and consistency of customer experience across all channels.

### Technology-led service innovation:

Customer demand for technology - led banking services innovation

Customers demand.....	.....technology-led banking services innovation
<b>More personalized services and enhanced customer experience</b>	Branch technology: increase relevance of branch services to the customer through channel integration
<b>Increased simplicity, self-control, and mobility of banking services</b>	Internet technology: Offer innovative internet banking services for the self-directed customer Mobile technology: introduce mobile banking services for the mobile customer
<b>More relevant services and transparent access to information across all channels consistently</b>	Business intelligence(BI) technology: customize and personalize products and services across all channels to enhance the customer experience

### Findings and Recommendations:

The commercial Banks in India have several options to meet the changing customer requirements and preferences leveraging technology innovations to improve the banks functioning by way of implementation of Internet, E-Banking mobile, and branch technologies have given highest customer preferences.

This pilot survey reveals the application of Business Intelligence to find the opportunities for banks to address customer's preferences.

The financial institutions particularly banks introduce innovative channels such as internet banking and Mobile banking developments led them to focus on cost reduction and revenue maximization of commercial banks. To improve revenues of banks relied on service innovation or financial innovations.

The management of the banks should employ best policies to increase the usage of these innovative banking channels to decrease their costs and thus increase their performance.

**References:**

1. Chi YS, Kevin G, David E (2007) Factors affecting the adoption of Internet Banking in Hong Kong: implications for the banking sector. *International Journal of Information Management* 27: 336-351.
2. Joshua AJ, MoliKP (2011) Usage Patterns of Electronic Banking Services by Urban Educated Customers: Glimpses from India. *Journal of Internet Banking and Commerce*.
3. Sohail M, Shanmugham B (2012) E-banking and customer preferences in Malaysia: An empirical investigation. *Information Sciences* 150: 207-217.
4. Shastri, R.V. (2003), "Recent Trends in Banking Industry: IT Emergence", *Analyst*, (March), pp. 45-46.7.
5. Shekhar K C, Shekhar Lekshmy (2013) "Banking: Theory and Practice" Noida, Vikas Publishing House Pvt. Ltd.8.
6. Suresh Padmalatha, Paul Justin (2010) "Management of Banking and Financial System" Singapore, Pearson Education Singapore Pvt. Ltd.

