

ROLE OF E-COMMERCE IN INDIAN BANKING SECTOR

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Abstract

Over the last ten years the way of buying and selling of goods and services has been changed by the internet. E-Commerce is transforming the shopping experience of Indian customers. The introduction of electronic data interchange spreads in to producers, retailer's traders, stock market to operations and travel reservations etc., which resulted in a higher growth of the economy. The term "E-Commerce" means doing online business with the help of computers, fax, and telephone. In 1972, the term was firstly used by IBM. The first transactions was carried out between the European Union and the USA. In 1995, the introduction of internet market the beginning of E-Commerce in our Country.

E-Banking has become popular because of its convenience and flexibility, and also transaction related benefits like speed, efficiency, accessibility etc.,. The greatest advantage of E-commerce is that it connects people within a very short span of time from any part of the world. Allow people to enjoy, access products, services, information and other people which otherwise would not be so easily available to them. Banks are the back bone of every country's economy and help in speedy transactions which were not possible before the introduction of E-commerce. In this paper shows the role of Indian banking sector through E-commerce.

Introduction

Electronic commerce is sharing business information, maintaining business relationships and conducting business transactions by means of telecommunications network. Tremendous progress in the field of information technology has reduced the world to a global village and it has caused unprecedented change in the banking industry. 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.

Banking changed both the banking industry as well as banks' services to its customers. 'Anywhere banking' came to be recognized as an opportunity also for differentiated and competitive services. Apart from branch banking in the brick and mortar mode, click and order channels like internet banking, ATMs, Tele-banking and mobile banking are now in vogue. Customers can view the accounts, get account statements, transfer funds, purchase drafts by just making a few key punches. Availability of ATMs and plastic cards to a large extent make it necessary for customers going to branch premises. Smart Cards with an embedded micro-processor chip have brought about revolutionary change. Electronic Data interchange (EDI) is another development that has made its impact felt in the banking arena. Transaction costs have fallen down, productivity has tremendously improved, new banking products and services have entered the market.

Brief History of E-Commerce

The history of ecommerce started 40 years ago and, to this day, continues to grow with new technologies, innovations, and thousands of businesses entering the online market each year. Electronic Data Interchanges and teleshopping in the 1970s paved the way for the modern day ecommerce store. The history of ecommerce is closely intertwined with the history of the internet. Online shopping only became possible when the internet was opened to the public in 1991. Amazon.com was one of the first E-Commerce sites in the US to start selling products online and thousands of businesses have followed since. The convenience, safety, and user experience of ecommerce have improved exponentially since its inception. This article will address some of the key players and milestones of E-Commerce.

Meaning of E-Commerce

E-commerce or EC is the buying and selling of goods and services, or the transmitting of funds or data, over an electronic network, primarily the internet. These business transactions occur either as business-to-business, business-to-consumer, consumer-to-consumer or consumer-to-business.

The terms e-commerce and e-business are often used interchangeably. The term e-tail is also sometimes used in reference to transactional processes for online shopping.

E-Commerce in Banking

ICICI was the first bank to champion its usage and introduced internet banking to its customers in 1996. With lower internet costs and increased awareness about electronic media, online banking established itself only in 1999. Other banks followed suit, including HDFC, Citibank, IndusInd and the now redundant Times Bank.

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.

Forms of E-Banking :

- INTERNET BANKING
- ELECTONIC FUNDS TRANSFER SYSTEM
- INVESTMENT THROUGH INTERNET BANKING
- AUTOMATED TELLER MACHINES
- DEBIT CARDS
- CREDIT CARDS
- BILL PAYMENT SERVICE
- APPLYING FOR/CLAIMING INSURANCE
- SMART CARDS
- MOBILE BANKING

BENEFITS OF E-BANKING

E-Banking helps us in overcoming the drawbacks of manual system, as computers are capable of storing, analyzing, consolidating, searching and presenting the data as per the user requirements with lot of speed and accuracy. Number of benefits accrues to the various parties with the development of E-Banking.

To the Banks

- E-Banking Service helps in increasing the profits
- E-Banking provides competitive advantage boundary with less network to the banks
- E-Banking carry on business less with paper money with and more plastic money
- E-banking websites can act as a revenue earner through its promotional activities.
- Customers can avail e-banking facility from anywhere, therefore saving the need not to invest more on building infrastructures.
- Websites that offer financial convergence for the customer will create a more involved banking customer who will more frequently utilize the banking websites.

To the Customers

- Reduced costs in accessing and using the banking services.
- Increased comfort and timesaving - transactions can be made 24 hours a day, without requiring the physical interaction with the bank.
- Quick and continuous access to information- Corporations will have easier access to information as, they can check on multiple accounts at the click of a button.
- Better cash management- E-banking facilities speed up cash cycle and increases efficiency of business processes as large variety of cash management instruments are available on Internet sites of Estonian banks.
- Reduced costs- This is in terms of the cost of availing and using the various banking products and services.
- Convenience- All the banking transactions can be performed from the comfort of the home or office or from the place a customer wants to.
- Speed - The response of the medium is very fast; therefore customers can actually wait till the last minute before concluding a fund transfer.
- Funds management- Customers can download their history of different accounts and do“what if” analysis on their own PC before affecting any transaction on the web. This will lead to better funds management.

To the Merchants, Traders, etc.

- It ensures assured quick payment and settlement to the various transactions made by the traders.
- It provides a variety of services to the businessmen on par with the international standards with low transaction cost.

- Cost and risk problems involved in handling cash which are very high in business transactions are avoided.

The Challenges of E-Commerce

A. ATM Services

This is perhaps the most popular E- Banking service used by the people of India. Started in the mid 90's India has over one lakh (100000) ATMs today. The Private Banks lead by ICICI bank took this initiative and have worked hard to popularize it. However ATM services have their own challenges to contend with.

1. Poor Infrastructure

Lack of proper place, electric connection and satellite (VSAT) / broadband connectivity has restrained this service from expanding to rural and semi urban areas in a big way.

2. Security Issues

While urban ATMs are generally located in crowded areas and also it is easier to get guards it is not so in case of rural areas. Since the machines are loaded with cash they are easy targets without proper protection. Also the lack connectivity to the state police system unlike other nations in the world makes it very difficult.

3. Operating Conditions

India is a multicultural and multi linguistic nation. Our Literacy levels are not so high. It becomes difficult to have instructions displayed in multiple languages. But the technology has come out with a solution to this. However technology can not help illiterate people in this and also ATMs can't ensure uniform operating levels from all people resulting in high wear & tear.

B. Debit/Credit Card Services

One of the services of Banks which has seen the highest growth in last one and half decades is that of Credit / Debit cards. While foreign banks like Citibank, Standard Chartered etc were the first to introduce them (especially Credit cards), it is the new age Indian Private Sector Banks like ICICI & HDFC among others who capitalized the most with this development. The plastic money thus made inroads into Indian economy especially luring the young, middle class, literate, urban crowd. However these are also characterized by certain challenges.

1. PIN Security

It is a major challenge to overcome. All that a card requires to draw money is a four digit PIN(Personal Identification Number). For an electronic system this simplifies work to a greater extent. However human mind with its limitations especially with creative and illiterate people alike makes it difficult to remember this number. Also a four digit code with just 10000 permutations is not so tough to crack especially with modern devices. However biometrics has a solution to this with the use of finger impressions.

2. Swipe/Signature Security

Most of the debit/credit cards are swiped while shopping indication fund transfer. Even though a slip is generated where a customer needs to sign, seldom has been a case where the signature is tallied by the Bank while settling claims nor a shop has been able to tally signatures as most customers don't sign at the back of their card. This makes card swiping unpopular with customers and marketers alike especially in small cities. The disputes are very difficult to settle.

3. Service Charges

One knows that most of the cards in the world are issued either by 'VISA or MASTER Card'. They run parallel to banks storing all information about the card holder that is useful & necessary. However for this service they charge the

C. Internet Banking

It is perhaps the biggest invention in Banking in the last century. Two of the major contributors to this remain Automation of Banking and Birth of Internet. While the one ensured conversion of processes from manual to auto mode, the other ensured it reached everyone concerned with the activity ; be it the bank, customer or a third party as seller. This revolution however in India is yet to take place in a big way. While it is a huge cost saving for Banks except initial investments, the customer remains wary of embracing the same wholeheartedly.

1. The Connectivity:

While internet banking remains the fastest and most convenient (even being operated from home) the nation lacks connectivity on the same. Most of the rural and some semi urban areas remain unconnected or partially connected. This is an issue beyond the scope of banks.

2. Bandwidth of Internet Service

Even in the areas where connectivity is adequate, bandwidth remains a problem. While the Bank branches in this area can afford alternatives such as satellite connectivity/VSAT, the consumer remains devoid of these facilities at the personal level. This results in connectivity getting lost and customer losing patience. It also results not only in more footfalls at branches but contributes to customer dissatisfaction.

3. Security

This remains the biggest concern with Internet Banking the world over. In India too while RBI has issued guidelines in this regard, the issue continues to be of concern to both Banks & their Customers. While some of the smaller banks in the past have compromised on this issue, the technological advances in the field have helped the fraudsters to continue to find ways to evade Bankers & Law makers alike, despite the adherence to rules and regulations by Banks & Customers.

D. Mobile/ Tele-Banking

The result of boon in telecom sector in the form of mobile telephony in India during first decade of this century has seen an explosion in the number of telecom subscribers which stands today at 875 million +. This fact has encourage the bankers to offer more and more services on telephone rather than in Branch banking. These include services like cheque book request, password reset, DD request etc. However this type of banking has some peculiar problems.

1. Illiteracy

Unlike in the use of mobile phones banking requires an awareness about processes, rules and regulations. However most of the mobile users in the lower class do not understand them and find them difficult to operate.

2. Technology

This can be a severe constraint when it comes to use of mobile instruments. Since most of the people buy instruments within their budgets, there is a severe constraint on the part of service providers in terms of features being offered in these handsets

3. Penetration

Unlike Mobile Telephony Banking has not been able to make inroads into the rural heartland of India. The fact that 83% of Indian population still doesn't have a bank account proves this. Hence the problem needs to be addressed at the Bank Level.

4. Security

This again is a major concern because of two factors a. Lack of availability of a Reliable Network by the Mobile service provider in the Area b. Information leak due to easy accessibility of a mobile handset. Apart from these there is always a danger of Apps on a smart phone, which regularly access information stored in the mobile, stealing some important data

E. Electronic fund Transfer

One of the most useful applications of E-Banking, this feature has immensely helped the Businesses. In the beginning only intra bank transfers were real time. But however after RBI took an initiative to connect all the scheduled banks in India, Intra bank transfer in real time (RTGS) has become reality. However this technology still needs a lot of improvement because of the following challenges.

1. Limit on Fund Transfers

Even though RBI has limited the fund transfer on Internet Banking due to security reasons, walking into a branch every time a bigger fund transfer needs to be done is cumbersome and time consuming. A way needs to be arrived at ensuring the same happens from an office computer and not from a Bank branch.

Conclusion

The study reveals that there is not much awareness in Indian customers regarding use of E-Banking Services. Indeed banks may increasingly act as E-Commerce facilitators while their long-standing business lines decline in importance. Such a change would probably prompt banks to scale back the size or alter the scope of their branch networks and to devote more resources to the development and maintenance of computer networks and software. The precise role that banks ultimately play in E-Commerce, however will depend in large part on how well they manage the strategic and operational risks associated with doing business in the electronic marketplace.

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