

Financial Inclusion In India –A study on Impact of Electronic Banking.

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INTRODUCTION:-

Financial inclusion is emerging as a new yardstick and image of economic growth and development that plays an integral part in driving away poverty from the country. It concentrates on the backward people who do not enjoy the formal financial institutional support. The branchless banking is a newfangled notion where accounts can be opened and managed without going to a bank branch. In the era of information technology, a person is lagging behind not because he lacks funds but because he does not have adequate intelligence about what is beneficial in his environment. Electronic banking has made a prominent breakthrough in the arena of banking and finance. After the successful application of core banking explanation and net banking, it has been experienced that banks recruit executives who have to do justice to their assigned liabilities. After 73 years of independence, the telecommunication sector is the one that has successfully penetrated into Indian households. So mobile banking has added a new dimension in E-Banking. The intent of the proposed research paper is to explain the scope and challenges of E-Banking to analyze the mechanism through which online banking can facilitate financial inclusion in India.

CONCEPT:-

While inclusive banking began, in spirit with the nationalization of banks in 1969 and 1980 in India, the real thrust on financial inclusion came in 2005 when the RBI highlighted its significance in its annual policy statement of 2005-2006. Financial inclusion is globally considered a critical indicator of the development and well-being of society. FI, as a policy initiative, entered the banking lexicon only after the recommendations of the Rangarajan committee in 2008. It began to attract the attention of stakeholders when banks realized the significance of connecting with more people for business growth. The span of financial services included the provision of basic savings accounts and access to adequate credit at affordable costs to vulnerable groups such as the excluded sections of society and low-income households. The experience of micro finance units in India and abroad shows that vulnerable groups who pay usurious interest rates to local money lenders can also be worthy borrowers of banks. The penetration of banking services was initially mostly confined to urban areas and major cities, after which they started spreading to the hinterland. FI thus became an integral part of the business domain of banks, with RBI advising all public and private banks to submit a board-approved 3-year FI plan (FIP) starting from April 2010. Faster implementation of FIPs is seen after 2010-2011. commercial banks opened new rural branches, increased coverage of villages, set up ATMs and digital kiosks, deployed BCs, opened new frill accounts, and provided credit through KCC and GCCs. The introduction of core banking technology and the proliferation of alternative delivery channels aided the process of inclusion on a larger scale. The statistics on the key banking network give a sense of the pace of progress of banking outreach as part of FI. The IT Act 2000 provides legal recognition to electronic transactions. E-banking came into being in 1920s in

the USA and the UK. In India, from the early 1990s, e-banking has become popular. After the opening up of the Indian economy in the year 1991, many foreign banks entered the Indian economy, and they brought new technology with them. There are many banks at present that offer internet banking, such as SBI, ICICI, HDFC, Axis Bank, Union Bank, Bank of India, etc.

E banking is a method of banking through which customers are able to carry out their banking transactions electronically without visiting a bank branch which benefits consumption of time. In India, now electronic transactions are done on a large scale. The RBI has also established the National Payment Corporation of India (NPCI) to oversee the retail payment system (RPS) in India, which began operating in 2009.

STATEMENT OF THE PROBLEM:-

This study focused on the opportunities and challenges due to the introduction of electronic banking has brought in India. On a deeper level, this paper aims to acquire a better understanding of the factors influencing the development of e-banking. We will examine how E banking will affect productivity, efficiency and profitability of bank. The paper aims to identify the important challenges for development of E-banking in India with the help of various modes we shall explore some possible implication of both opportunities and challenges that may arise as result of the introduction of E banking.

NEED OF THE STUDY:-

- India is one of the most popular countries in the world, but a smaller number of people are well aware of e-banking services.
- The current government is keen to focus on bringing all people into financial inclusion, which ultimately strengthens the economy. It is important to know the current state of financial inclusion in India.
- E banking also brings transparency, enhances insurance penetration, and improves financial inclusion, so it is important to know the problems in E banking.

OBJECTIVES OF THE STUDY:-

1. To explain the scope and directions of E banking.
2. To study about opportunities, challenges, reforms of E banking.
3. To identify the advantages and strategies how the bank system can be used more customized and user friendly way to ensure maximum justice to all stakeholders of the nation.
4. To analyze the mechanisms, tools and techniques through which online banking can facilitate the financial inclusion in India.

SIGNIFICANCE OF THE STUDY:-

It is expected that the study will enable banks and policy makers to be aware of E banking products and services which are offered to customers. It will also enable the banks to be able to identify the factors that influence their decision making. This will guide bankers in designing and implementing appropriate strategies which will enable them to realize the full benefit of E banking.

METHODOLOGY:-

The present study is descriptive in nature. The secondary data has been used for the study it is collected from RBI bulletin, literature, publications websites of RBI and reports from banks.

REVIEW OF LITERATURE:-

Han & Melecky, (2013). Greater financial inclusion can also provide poor households with opportunities to build savings, make investments and access credit

Ellis, Lemma, & Rud, (2010). Financial inclusion also enables them to handle income shocks over unforeseen emergencies such as illness or loss of employment

Collins, Morduch, Rutherford, & Ruthven, (2009). Also, financial inclusion has positive effects for financial stability by reducing procyclicality risk; a substantial increase in the number of small savers via greater financial inclusion would increase both the size and stability of the deposit base of banks which would reduce banks' dependence on "non-core" financing, which tend to be more volatile during a crisis

Khan, (2011), thus improving banking system stability. Also, low-income groups are relatively immune to fluctuation in economic cycles, and including them in the financial sector will improve the stability of the deposit and loan bases in the financial system.

Hannig and Jansen (2010) show that financial institutions catering to the lower end individuals tend to survive through macro-crises well and help sustain local economic activity. Additionally,

Prasad (2010) also observes that the lack of adequate access to credit for small and medium-size enterprises and small-scale entrepreneurs has adverse effects on overall employment growth since these enterprises tend to be much more labour-intensive in their operations. Also, greater levels of financial inclusion can facilitate increased participation by different sectors of the economy in the formal financial system because, as the share of the formal financial sector increases, it strengthens the case for the use of interest rate as a key policy tool for macroeconomic stability, which has positive effects for economic growth

Cecchetti & Kharroubi, (2012). According to Dev (2006), financial inclusion and E banking can be viewed both as a business opportunity and social responsibility when self-help groups and microfinance institutions participate in inclusion programs, because these two agents are important to improve financial inclusion.

ANALYSIS:-**SERVICES UNDER E-BANKING:-****1. Automated Teller Machines (ATMs):-**

Facilities under ATMs are cash withdrawal, balance enquiry, mini statement of account, PIN (personal identification number) change etc. For availing this facilities customers inserts a debit plastic card, which is encoded with information on a magnetic strip and have to choose their preferred language from options available. Customers have to enter 4 digit PIN for availing any of the service under ATM. PIN are confidential. Sharing of PIN among friend or any other person can create a trouble. Depending upon the bank and nature of account there are different rules and limits for transaction.

2. Debit Cards:-

The debit cards are used for withdrawal of cash from ATM, purchase of goods and services, domestic and international fund transfer from one person to another. In recent few years use of debit card for mobile recharge, bills payment, payment at online stores as increased for getting a cashback offers and discounts.

3. Credit Cards: -

It is card issued by bank that can used to buy products and services on credit. Bank charge interest on credit card use. Credit card are primarily used for short term financing. Almost every store allows for payment of goods and services through credit cards. Credit card is convenient substitute for cash and cheques

4. Smart Card: -

Smart Card also known as an Integrated Circuit Card (ICC) is a plastic card about the size of debit and credit card, with an embedded microchip that can be loaded with data, used for electronic cash payments, they can be used to pay for many public transportation services, this has many benefits when the person goes to acquire health care facilities, they can be used as identification proof in many countries around the world and it can be periodically refreshed for additional use. Internet Banking through Bank Website are,

Presently internet banking services intends to provide following online services

- Account Summary
- Overdraft Details
- Transaction Details
- Online Requests
- Fund Transfer between own Accounts.
- Adding of Account in Beneficiary List
- Fund transfer to third party account
- Standing Order
- E-payment facilities
- TDS Details
- Other options: - User can view address details, change login password, change transaction password, view login history etc.

5. **Mobile Banking:** - It is a system that allows customers of a bank to conduct a number of financial transactions through a mobile phone. Facilities such as

- Fund Transfer in self-linked accounts and third party transfer.
- Account Summary
- Account Statement
- Recurring Deposits Summary
- Cheques Status
- Stop Payment of Cheques
- Locate Branch and ATMs
- Bill Payment and Recharge.

6. BHIM (Bharat Interface for Money) Application:-

Bharat Interface for Money (BHIM) is an application developed by NPCI (National Payment Corporation of India) to enable secure, fast and reliable cashless payment through UPI (Unified Payment Interface) platform.

REFORMS OF BANKS:-

1. National Electronic Funds Transfer (NEFT):-

- It is a system that facilitates individual, firms and corporates to electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country.
- Even such individual, firms or corporates who do not have a bank account can also deposit cash at NEFT enabled branch with instruction to transfer funds using NEFT.
- There is no limit either minimum or maximum on the amount of funds that could be transferred using NEFT.

2. Real Time Gross Settlement System (RTGS):-

- RTGS system is a fund transfer mechanism for transfer of money from one bank to another on a 'Real Time' and on 'Gross Basis'. This is one of the fastest money transfer system through banking channel.
- Here settlement in 'Real Time' means payment transaction is not subject to any waiting period. The transaction are settled as soon as they are proceed. 'Gross Settlement' means the transaction is settled on one to one basis without bunching with any other transactions.
- RTGS is primarily meant for large value of transaction. The minimum amount to be remitted through RTGS is 2 lakhs.

3. Indian Financial System Code (IFSC):-

- IFSC is an alphanumeric code that identifies a participating bank and branch in electronic fund transfer.
- It is an 11 character code.
- The IFSC code is used by NEFT, RTGS and IMPS finance transfer system.
- Reserve Bank of India (RBI) has direct the banks to print IFSC code on passbooks.

4. Magnetic Ink Character Recognition (MICR) Code:-

MICR code is a system for ensuring the safety and security of negotiable instruments, to facilitate the processing of the cheques. MICR code of 9 digit number, the first three digit represent the city, next three represent the bank and the last three digit represent the branch. MICR code is written with a special magnetic ink, thus fraud cases can be easily identify through check done by the magnetic scanner. This code can be found in all the cheques at the bottom white line which is known as MICR Band. MICR code can be used for international transactions as well.

5. **Electronic Clearing Service (ECS):-** The Electronic Clearing Service is a retail payment system that can be used to make bulk payment. Its aim is to decrease volumes of paper instruments

in MICR clearing and improve customer service by ensuring prompt and secure interest/dividend payment to the beneficiaries. It is a system that is cost effective and which serve as an alternative method of bulk, low value and recurring payment transactions. The ECS-Credit enables companies to pay interest or dividend to large number of beneficiary by direct credit of the amount to their bank accounts. The ECS-Debit is mostly used by utility services like telephone and electricity companies to receive the bill payments directly from customer bank accounts.

6. Know Your Customer (KYC):- As per the RBI (Reserve Bank of India) guidelines issued on July 23rd 2013, banks are required to periodically update their customer's identification document. In this connection customer (including joint account holder customer) are require to submit latest photograph, self-attested copy of identity proof and address proof along with a duly filled Customer Updation Form. As per the RBI, the KYC formalities must be fulfilled in the following format;

(A) High risk customer- once in 2 years.

(B)Medium risk customer- once in 8 years.

(C)Low risk customer- once in 10 years.

RECENT TRENDS IN BANKING:-

- ✓ **One hundred banks joined National Financial Switch Network as direct members: -**
The NFSs is the largest interoperable ATM network in the country and it manages more than 95% of the domestic interbank ATM transactions. Till date, NFS network comprises of 745 members which include 100 direct members, 645 sub members including Regional Rural Banks (RRBs) and White Label ATM operators (WLAOs). The network now has 2.3 lakhs ATM. The NPCI (National Payment Corporation of India) said on December 7, 2016 that 100 banks have joined the NFS network as direct members. Direct members are those banks that directly participate in clearing and settlement with NPCI. Direct member bank can also act as a sponsor bank.
- ✓ **Launching of digital offerings by banks: -** The State Bank of India (SBI) on the occasion of 61st State Bank Day, launched a social media banking platform for Facebook and Twitter users, called SBI Mingle which help the customers with a host of banking services on their social media accounts at their own convenience. Banks through their social media i.e. Facebook, Twitter and Instagram promote their products and services. They tie-up with e-commerce company and bring the exciting offers for their customers. With the usage of their debit card, credit card etc. purchaser get a cashback or discount. For example:- Instant discount of 10% at Luxehues.com with SBI debit card, offer validity from August 1, 2017 to January 31, 2018 this is one of the promotion done by SBI in their official Instagram account.
- ✓ **E-wallet companies: -** E-wallet companies like Paytm, Free charge and PhonePe have extended their business in millions and there is a cutthroat competition among them. E-wallet companies attract their customer by giving cashbacks. After the on November 8th, 2016 small shops and customers who were not using E-wallets have also started receiving and making

payment via E-wallets. Services provided by them are making mobile phone recharge, DTH recharges, landline bill payment, water bill payment, electricity bill payment, payment of institution fees, gas refill payment, and transfer of money from one wallet to another demonetization wallet and wallet to bank account, payment of insurance premium, donate in various NGO, train tickets booking etc.

SCHEMES BY GOVERNMENT:-

- (A) Pradhan Mantri Jan Dhan Yojana (PMJDY):-** This scheme was launched on August 28, 2014. Under this scheme main aim of government was to bring every Indian in the rural or urban sector to connect with banking system. This scheme offers an account holder to open account with no minimum balance, life cover of Rs.30 thousand, accidental insurance of Rs.1 lakh, beneficiaries of government schemes will get direct benefit transfer in these accounts, after satisfactory operation of the account for 6 months, an overdraft facility will be permitted, overdraft facility up to Rs.5000 is available in only one account per household, preferably lady of the household.
- (B) Direct Benefit Transfer (DBT):-** This scheme is one of the most important scheme. Direct Benefit Transfer scheme is an attempt by Government of India to change the mechanism of transferring subsidies to people. Under this scheme amount of subsidy is directly transfer to people's bank account directly by government.
- (C) Pradhan Mantri Gramin Digital Saksharta Abhiyan (PMGDISHA):-** By Ministry of Electronics and Information Technology, Government of India this scheme is launched on October 7, 2017 at IIT Gandhinagar, Gujarat. This aims to Impart digital literacy to six crore citizens in rural India, provide access to information, knowledge, education, healthcare and livelihood generation, enable financial inclusion through use of digital payments, train to avail various government schemes and citizen centric services, empower women and marginalized communities through digital inclusion.
- D) Linking of bank account with AADHAR number:** - AADHAR is biometric identification system. AADHAR number is 12 digit number issued by UIDAI (Unique Identification Authority of India) As per the amended Prevention of Money Laundering Act, 2002 rules (PML rules) till December 31st, 2017 every bank account holder as to link their account with AADHAR card number.

CHALLENGES AND PROBLEMS OF E-BANKING IN INDIA:-

- Due to technical defaults sometimes there is loss of data, which create insecurity among customers.
- Lack of awareness in customers. For example- people share ATM card number, CVV and the OTP (One Time Password) by believing in fake calls.
- Temporary not availability of bank's website which create problems for customers while making payment, resetting passwords, checking account statements etc.
- Not in service of toll-free numbers of banks in case of problem faced by customers like loss of ATM card etc.
- Not in service and no availability of cash in ATMs.
- Deduction of amount from account even after the unsuccessful transaction while withdrawing cash from ATM, making payment through card or internet banking.
- Poor response from bank regarding transaction related to E-banking.

- Very delay refund of amount from bank in case of unnecessary deduction.
- Lack of communication between bank and customer. Many customers AADHAR card number, present phone numbers, present communication address are not updated with the banks.
- Poor services by banks.
- Banks are over loaded with works. Even for deposit of cash through Pay in Slip many bank staff say to customers for going branch in which they have opened account.
- Lack of ATMs in villages and towns.
- Generation of OTP (One Time Password) even after the entering incorrect CVV.
- Untrained technical staffs in Banks.
- Lack of training programs for bank staff and customers.
- Many banks are not following the KYC (Know Your Customer) norms issued by RBI. On July 27, 2016 RBI has imposed monetary penalty on the following banks who had done violation of instruction/guidelines, on KYC norms. The penalties has been imposed in exercise of powers vested in RBI under the Section 47(A)(1)(c) of the Banking Regulation Act, 1949, taking into account the violation of the instruction/guidelines issued by the RBI from time to time.

SUGGESTIONS:-

- For providing the additional security for customers, banks should focus on adopting Multi-Factor Authentication (MFA) system.
- Encryption plays a crucial role in online security. All banks keeping in mind the security issues should upgrade their online portal to 256-bit SSL (Security Socket Layer) from 128-bit SSL. Banks like SBI (State Bank of India) has already upgraded.
- The use of same password for a long time is not secure. Bank should make compulsory rule regarding change of ATM PIN, internet login and transaction password etc. after a specified period.
- Banks should educate people regarding use of genuine sites and give security tips regarding payment via credit card, debit card etc.
- By all banks, access to internet banking should be allowed only after entering OTP (One Time Password) which comes in registered mobile number.
- All banks should register alternate mobile number of customers and it should also be printed on the passbook along with primary mobile number.
- Biometric ATM machines can also be used to prevent hacking of password and to make easy for illiterate people.
- All banks should follow the KYC (Know Your Customer) norms and other guidelines given by apex bank (Reserve Bank of India).
- There should be timely joint meetings of all banks (public sector, private sector) headed by RBI.
- Government of India with the cooperation of state government, RBI and other banks connect all citizens of India with banking system.
- Government with the cooperation of banks must start a Certificate Program for college and school student on 'Digital Payment'.

- There is need to increase number of ATMS for cash deposit and cash withdrawal. E- Banking is related with internet connectivity. In India internet connectivity and its speed is very poor.
- TRAI should take steps for strengthening telecom sector. Most of the time we don't get messages from bank due to the poor service/network of Telecom Company.
- Strong action should be taken against the hackers and frauds.
- After every successful and unsuccessful transaction via internet banking, mobile banking and cards banks should provide their customer option of sending feedback and that feedback should also be send to RBI.

CONCLUSION:-

We can conclude that in 21st century, life of people has become very fast and banking system being the very crucial part of economy need a lots of improvement. Now people don't like to stand in queue in banks, they prefer doing electronic transactions. E-banking is helpful in controlling corruption in our country. As we have discuss above our Indian banking system is facing lots of problems and challenges. There is a need for IT sector development, balanced regional development in banks and look after the cyber security matters. There is also need to aware people about the risk involved in financial transaction through E-banking. People are having unnecessary insecurity in their mind while doing transaction using ATM, internet banking and mobile banking. Steps are being taken by RBI and government but they are not sufficient, we need more improvement

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