INNOVATIONS IN BANKING SECTOR - E-BANKING PRODUCTS

Dr. B. Rajani Devi
Lecturer in Commerce
Govt. Degree College for Women, Karimnagar.

INTRODUCTON

The term Innovation means to make something new. Banks no longer restrict themselves to traditional banking activities, but they have explored newer avenues of increasing their business and capturing new markets. Today we have a fairly well developed banking system with different classes of banks. Some of them have engaged in the areas of consumer credit, credit cards, merchant banking, Internet and phone-banking, leasing, mutual funds etc.

Banking in India

- In India, “The General Bank of India “was the first bank started in 1786.
- The qualitative and quantitative changes in the banking sector took place when, “The Bank of Bengal” was started in 1806.
- The Reserve Bank of India started in 1935 became the central banking authority.
- The Banking Company Act was passed in 1955.
- 14 Major Banks were nationalized in the year 1969 and 7 more banks in 1980 were nationalized.
- IN 1990’s greater emphasis was being placed on Technology and Innovation
- Opening up of the economy and implementation of the recommendations made by Narasimham Committee influenced the Indian Banking sector to a greater extent.
- New concepts like personal banking, retail banking, total branch automation etc.were introduced.

Concept of E-Banking

Liberalization and de-regulation process which started in 1991-92 made drastic changes in the Indian Banking System. From a totally regulated environment, the banks in India gradually moved into a market driven competitive system. E-Banking or electronic banking is a major innovation in the field of banking. Information revolution led to the evolution of Internet which led to the e-commerce continued by the evolution of E-banking. In the present Era, we cannot think about the success of any service or industry including the banking industry without Information Technology. The Information Technology has increased contribution of banking industry in the economy. Financial transactions can now be processed quickly and easily in fraction of seconds. Banks are able to generate more and more business opportunities resulting in greater profitability. The Information Technology Revolution in banking sector has not only provided improved services to the customers but also reduced operational costs of the banks.

History of E-Banking

The history of E-Banking dates back to 1980’s.The term online banking became popular in the late 90’s and referred to the use of a terminal, keyboard and monitor to access the banking system using a phone line. The first online banking service was introduced in 1994 in the United States of America. This service was developed by Stanford Federal Credit Union which is a financial institution and provided the first online internet banking services to all of its members in 1994.Later on the idea was snapped by various other banks.

E- Banking in India

In India e-banking is of 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.

Opening up of the economy in 1991 marked the entry of foreign banks in India .These banks brought new technology with them. The concept of internet banking has been simultaneously evolving with the development of the World Wide Web. The online shopping promoted the use of credit cards through internet. Banking products became more and more competitive and the need for diverse products and services was felt.

The credit of launching internet banking in India goes to ICICI Bank. Citibank and HDFC Bank followed with internet banking services in 1999.The ICICI bank firstly introduced online banking in India in 1996 under the brand name "Infinity". Currently 78 percent of its customers are registered for online banking. 1996 to 1998 marked the adoption phase while usage increased only in 1999 owing to online charges, increased PC penetration and technology friendly atmosphere.

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 monitors and reviews 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.

Modern banking is virtual banking which means the customer cannot see the bank but with the help of technology all the banking activities can be conducted from anywhere in the world. The Reserve Bank of India constituted a working group on Internet banking. The group divided Internet banking products in India into three types based on levels of access granted. They are,

1) Information only System
2) Electronic Information Transfer System
3) Fully Electronic Transactional System

Components of E-Banking

- Internet
- Wire Application Protocol based mobile (WAP is a technology started for accessing information over a mobile wireless network)
- Automated telephone
- ATM network
- SMS and FAX messaging components
- Multipurpose Information Kiosks

Using the above components financial transactions can be conducted from anywhere and allow non-stop working time.

The three broad facilities that e-banking offers are

- **Convenience** - Complete your banking at your convenience in the comfort of your home.
- **No more Q's** - 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.

E-banking simply refers to the use of electronic channels like phone, mobile, internet etc for delivery of their services to their valuable customers The use of e-banking technology includes using ATM's, Smart cards, ATM, Telephone banking, Internet banking and Mobile banking.etc. for doing day to day banking services.

E-banking products and services in India

- Internet Banking
- ATM
- Mobile Banking
- RTGS
- NEFT
- Debit and Credit Cards
- Smart Cards
- POS

Internet Banking: It is a system of banking in which customers can view their account details, pay bills and can transfer money by means of the internet. This includes the delivery of new and traditional banking products and services through electronic delivery channels. This system allows conducting the banking transactions online. It is the use of electronic means to transfer funds directly from one account to another rather than by cheque or cash.

Automated Teller Machine: ATM's are widely used as electronic channels in banking. It is operated by a plastic card with special features. It is a computer controlled device through which the customer can make withdrawals, check the balance in account.etc.

Mobile Banking: This refers to the use of a smart phone or other cellular device to perform online banking tasks while away from home computer. The activities such as monitoring account balances, transferring funds between accounts, payment of bills, locating an ATM etc.

RTGS: It stands for Real Time Gross Settlement**.** It is a fund transfer mechanism where transfer of money takes place from one bank to another. It is primarily for large volume transactions .The time taken for effecting funds transfer from one account to another is normally two hours.

NEFT: It stands for National Electronic Fund Transfer. It facilitates transfer of funds to other bank accounts in over 36000 bank branches across the country. It is simple, secure, safe, faster way to transfer funds.

Debit Card: It is a plastic card which provides an alternative payment method to cash for purchases. Functionally it can be called an electronic check as the funds are withdrawn directly either from the bank account or from the remaining balance on the card. It is used instead of credit card to pay bills such as utilities, insurance, etc.

Credit Card: It is a part of a system of payments named after the small plastic card issued to users of the system. It is a card entitling its holder to buy goods and services based on the holders promise to pay for the same. The issuer of the card grants credit to the user or customer from whom the user can borrow money for payment to a merchant or as a cash advance to the user.

Smart Card: It is a micro chip based card used for making purchases without need of any PIN. It is a powerful card which carries out functions of ATM card, Debit card and Credit card.

POS: Point of Sale is the time and place where a retail transaction completes. It is the point at which a customer makes a payment to the merchant in exchange for goods or after provision of service.POS terminals are the electronic devices deployed at merchant outlets to accept the debit and credit cards.

Benefits of E-banking

E-banking helps the customers as well as banks by overcoming the drawbacks of manual system as computers are capable of storing, analyzing, consolidating, searching and presenting the data as per the requirement of customers and banks with a lot of speed and accuracy. It increases the efficiency in the area of effective payment by enhancing the delivery of banking services in quick time. E-banking has helped banks to retain the current customers, increase customer satisfaction, acquire further share in the markets and reduce the costs of delivering service to the customers. Delivery of services has gained increasing popularity through electronic platform. It provides alternative way for delivery of services in a faster way to the customers. Various services are being offered by banks through electronic banking.

Advantages to the Banking institutions

- E-banking helps in reducing the cost of delivering the services to the customers.
- It provides banks with competitive advantage among their peers.
- It reduces the use of paper money that helps the central bank in printing less paper notes.
- Through websites, banks can earn revenue by promotional activities.
- Customers can avail e-banking facility from anytime, anyplace, therefore there is a need to invest more and more on relevant infrastructure.

Advantages to the customers

- E-banking delivers 24x7 services to customer.
- Easy access to account information in quick time.
- Payment can be made online for the purchase of goods and services.
- With e-banking, customers can check account balance, can get statement of their account, apply for loans, check the progress of their investments and collect other relevant information.

Challenges of E-banking

The latest developments in information technology have also brought many challenges in successful delivery of e-banking services to the customers. Speedy changes in technology, complex, high costs, security and data privacy issues, new rules and regulations, lack of trained manpower are some of the challenges faced by the commercial banks in India.

Customers need to have skill to deal with computers and browsers. The people who are not comfortable with computer and internet often find it difficult to make use of the e-banking facilities. In many instances, a simple pressing wrong key may create a big problem.

Security Risk

Increasing number of fraudulent bank websites will mislead the customers. For example a suspicious bank website www.sbionline.com will create confusion with the original bank website www.onlinesbi.com.

Fake e-mails are sent to the customers from fraudulent banks.

Personal Information verification e-mails are also sent to customers from fraudulent banks.

Fake calls and messages to the customers insisting them to disclose ATM numbers and their passwords.

Guides the customers to enter fraudulent links on the web site.

CONCLUSION

The banking sector in India has become stronger in terms of capital and number of customers. It has become globally competitive and diverse aiming at higher productivity and efficiency. Exposure to worldwide competition and deregulation in Indian financial sector has led to the emergence of better quality products and services. Reforms have changed the face of Indian banking and finance. The banking sector has improved in terms of technology, products and services, information systems etc. With new opportunities unfolding in banking sector India is sure to emerge as a global power in banking services in the days to come.

References

Barnes, S.J. and Corbitt, B. (2003). "Mobile banking: Concept and Potential". International Journal of Mobile Communication, Vol 1, (3), 279-288

Bradley, L. and Stewart, K. (2002) A Delphi Study of the Drivers and Inhibitors of Internet Banking, International Journal of Bank Marketing, Vol 20, (6), 250-260.

Basel Committee on Banking Supervision, (1999), "Enhancing Corporate Governance for Banking Organizations". September BIS.

Chalam, G.V. and Nageswara, K.S. (2006). "E-banking Application in Indian banks: Emerging Issues". Professional Banker, Vol.17, (2), 72-82.

Dannenberg, M. and Kellner,D.(1998). "The Bank of Tomorrow with Today's Technology". International Journal of Bank Marketing, Vol.16, No. (2), 90-97.