

IMPACT OF ONLINE BANKING SYSTEM BY IMPROVING OPERATIONAL EFFECTIVENESS OF INDIAN BANKS

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ABSTRACT

The importance of banks is growing everyday because banking system is the back born of our financial system and economic development. Indian banking sector is undergoing a major transformation over the last few years. This transformation brings more effectiveness in banking operations, earns several outstanding achievements and creates healthy competition among various players. Superior performance of the banks is an effective indicator to measure the performance of the economy to a great extent. So in this study, efforts have been made to compare the operational efficiency of private sector banks, one of the major constituents of Indian banking system, listed from the state of Uttar Pradesh. An efficient banking system is an integral part for the economic development of any country as repositories of nation's savings and as distributor of money to various agents of economy. Several studies reveal that a country which has a well-developed banking system grows faster than those with a weaker banking system. India, emerging super power in the globe, to sustain its high growth rate, the banking sector has a crucial role to play in mobilizing savings and channelizing them to productive uses. Indian banking sector is undergoing a major transformation over the last few years.

KEYWORDS: *P-Performance, C-Constituents, M-Mobilizing, T-Transformation*

INTRODUCTION

This transformation brings more effectiveness in banking operations, earns several outstanding achievements and creates healthy competition among various players. This sector is rich in terms of number of players with the presents of private and public sector banks, foreign banks, small finance banks etc. Initially, only few private and few public sectors were operating, but now the number has changed and also Indian banks are facing stiff competition from the foreign banks to retain the market share. The service mix offered by these foreign banks attracted many customers in the past. This has changed the phase of competition in this sector and to outperform, the domestic banks should offer a unique mix of values. New generation banks have done this job more successfully through delivery of services competent to that of foreign banks.

Strong financial health of a bank is equally significant for the stakeholders of the bank as well as for the economy. Superior performance of the banks is an effective indicator to measure the performance of the economy to a great extent. Both the sectors i.e. private and public sector banks have equal role in this process of development. As a sequel to this maxim, efforts have been made from time to time, to measure the financial position of each bank and manage it efficiently and effectively. So in this study, efforts have been made to compare the operational efficiency of private sector banks, one of the major constituents of Indian banking system, listed from the state of Kerala using CAMEL model.

Literature Review

Financial statement analysis is mostly used by various stakeholders like investors, creditors etc not only to measure the past and present financial position but also to predict the future financial performance of organizations. Financial statements are commonly analyzed by using the ratio analysis method. The ratio analysis is the use of ratio to interpret the financial statements thereby the strength and weakness of the company as well as its historical, current and future financial state can be determined. In spite of the size, the ratio analysis can also relate and examine the risk and return of the company in the industry. In addition, the ratio analysis can make the analyzed financial results comparable as to identify the deficiency and take the corrective actions to solve the problem. The comparison can be made in two ways which are the comparison with historical result (trend analysis) and with other competitors in the same business line or industry average. Generally, the financial ratio analysis provides information about a bank's performance on comparative basis and allows the conclusion about the bank performance to derive. Many studies have conducted CAMEL-based analyses of Indian banks in various contexts to measure its financial performance.

Online banking provides consumers with a convenient method of conducting bank business from the comfort and security of their own home and personal computer. Consumers can check account balances and review other account information any time of the day or night. Online banking has changed the face of transactional business and affects commerce across many trades and industries.

Limits Teller Transactions

Consumers now have the ability to perform transactions online that were traditionally reserved for tellers inside a bank branch. Teller transactions have declined because Internet users have the convenience of transferring funds, making deposits and requesting withdrawals from their personal computers. According to Bank Systems and Technology, "Internet banking has been the most influential in displacing branch transactions." Consumers also have the option of paying bills through their banks online.

24-Hour Access

Online banking can be performed 24 hours a day, 7 days a week. Consumers with Internet access can log in to their bank's website any time of the day and perform any number of banking transactions. Unlimited access provides consumers with the convenience of doing business on weekends and holidays when banks are traditionally closed.

Increase in Criminal Activity

Personal information is shared through online banking transactions. Although most financial institutions have safety measures in place that aim to prevent a breach in online security, many Internet predators have sophisticated techniques to intercept transaction submissions and steal bank customer information. Identity thieves obtain personal information through a technique called “phishing.” According to the Federal Trade Commission, phishing is when a thief “pretends to be a financial institution or company and sends spam or pop-up messages to get you to reveal your personal information.”

Financial Integration

The increase in online banking activity has gained the attention of institutions outside of the traditional banking industry. A variety of institutions now provide banking services such as prepaid credit cards, pay-day loans, business loans and check cashing services to consumers for a fee. Online services similar to those provided at banks are also available to customers. Services provided by these financial institutions are not subject to the same government regulations as traditional banks and credit unions.

What are the Advantages & the Potential Risks of Online Banking?

The Internet has changed the way consumers do business. Individuals have the opportunity to purchase products, acquire services and conduct transactions from their computer. Online banking is increasing in popularity due to the time savings and convenience it affords consumers and small businesses. Although banking online has many advantages, the nature of information shared through the web also gives rise to potentially dangerous risks.

Convenience

Online banking offers users the convenience of completing transactions over the Internet that have been traditionally conducted within a local bank branch. Consumers have free access to their bank's website, where they can pay bills, review account balances and even request withdrawals and money transfers. Online users can apply for auto loans or mortgages as well as credit cards and insurance from their personal computer. Many banking websites now offer personal investment and money management tools that customers can use to invest in the stock market and manage personal or small business finances.

Online Privacy Practices

Consumers and small business owners should carefully consider what personal information they are sharing when conducting banking transactions online. Although most bank websites have privacy policies in place to protect their customers' personal information, consumers must also take the appropriate measures. Banking transactions performed from public or work computers pose a potential privacy risk because bank websites utilize tracking cookies to identify return users. Tracking cookies encrypt customers' personal information so the website is able to recognize users when they return. This means online banking customers who perform transactions from shared public computers run the risk of having their personal information viewed by others. Surfing to other websites during a banking session also poses privacy issues and increases the risk of identity theft.

Security

Banks often collect personal data from Internet users during banking sessions or as users browse the bank's website. Further, consumer information is sometimes shared or even sold to third-party websites that lack the security measures of larger and well-known banks. This means consumers are at higher risk of target marketing practices and even fraud. Online users may be solicited by thieves through emails requesting personal information such as social security numbers or bank account numbers. The emails may also ask users to go to a website that looks similar to their bank's website. Once users are on the phony website, they are prompted to provide information regarding their bank account, which can then be used illegally.

Marketing Strategies for Promoting Banks

Banks have a unique challenge when it comes to marketing because they do not offer tangible products for consumers. Promoting a bank requires convincing consumers to trust a bank with their money and make customers feel like they are getting the most value for their money. Once customers invest with a bank, the bank must work to keep customers and get them to buy-in to additional products.

Management Efficiency

Another essential parameter of this model is management efficiency that guarantees growth and survival of banks. This element shows the path to set norms, knack to plan and be proactive in the dynamic environment, leadership, innovativeness and administrative competence of the bank. The following ratios have been used to measure management efficiency .

Inference: The productivity ratio shows that SIB has the best business per employee and they are able to generate more business through proper use of their employees. In case of profit per employee, Federal bank bagged the top position with an average of 7.11 followed by South Indian bank. Total advance to total asset ratio shows the efficiency of the bank. Federal bank stood on the top with highest average of 75.14 followed by south Indian bank. In case of return on net worth, south Indian bank is on the top with an average of 9.75 followed by federal bank. Based on the four sub parameters of efficiency, SIB and Federal bank jointly holds the top position and Dhanalakshmi bank stood at the bottom of the table .

- **Business per employee:** Efficiency of the employees to generate business (total advances and total deposits). The higher the ratio, better it is.
- **Profit per employee:** Efficiency of the employees to generate profit for the bank. Higher ratio is better.
- **Return on equity:** Profits available for shareholders. Higher ratio signifies efficiency of the bank.
- **Total advance to total asset:** Indicates the ability of the bank to convert deposits into high earning advances. Higher ratio is better.

Earning Quality

The forth parameter, earning quality is another important element which indicate profitability of banks and its ability to earn consistent return and also shows the path for future of the bank. Bank can increase their growth and productivity by increasing earning quality. The following ratios are used to check the earning quality .

Inference: The above table shows the earning efficiency of the banks. In case of operating profit to total asset, Federal bank stood in the top position with an average -.080 followed by south Indian bank. The main source of

income of a bank is interest. Dhanalakshmi bank is on the top with an average of 92.79 followed by south Indian bank. In terms of net profit margin, federal bank leads other banks with high net profit margin followed by south Indian bank. Ranking of the banks based on ROA indicates that, Federal bank ranked on the top with highest ROA of 0.84 followed by south Indian bank. Results of the group averages of three ratios of Earning Quality, which indicates that Federal bank is ranked at Top in this category with group average of 1.5 followed by south Indian bank .

- **Operating profit to total asset:** Indicates operating income of the bank per rupee invested in total assets. Higher ratio is better.
- **Interest income to total income:** Represent the share of interest income in total income. Higher ratio is better.
- **Net Profit Margin:** this is the ratio of net profits or net income to revenues for a bank. Higher ratio is better.
- **Return on asset:** Efficiency with which bank uses its assets to generate net income.

Liquidity

Liquidity is the last but crucial element in Camel, which reflects banks ability to meet its financial obligations. The risk of liquidity can have a direct impact on bank's reputation. A proper equilibrium is necessary in liquidity, which helps banks to obtain enough funds. The following ratios are used to measure liquidity of banks .

when compared to other banks. This bank leads other banks in terms of Liquidity to total deposit with an average of 9.34, i.e. they have enough liquidity to pay deposits. Dhanalakshmi bank is also on the top position with highest current ratio and federal bank has least current ratio. In case of credit deposit ratio, Federal bank stood on the top with an average of 74.64 followed by South Indian bank. Overall Dhanalakshi bank is performing well in terms of its high liquidity compared to other listed banks from Uttar Pradesh.

- **Current ratio:** This ratio shows ability of bank to pay its short term obligations. For the purpose of analysis, a higher ratio is better.
- **Credit deposit ratio:** It shows how much bank has lends out of the deposit it has mobilized. This ratio should neither be too high nor too low. But for the purpose of analysis a higher ratio is preferable.
- **Liquid asset to total asset:** This ratio shows percentage of liquid asset to total asset. Higher ratio is better.
- **Liquid asset to total deposit:** This ratio shows percentage of liquid asset to total deposit. A higher ratio is preferable.

Finding and Suggestion

Federal bank has performed better in Capital Adequacy followed by SIB. So it shows that the bank has strong risk management system and capacity to meet their additional capital needs. Federal bank also stood in the top position in asset quality followed by SIB. These banks are effective in managing their assets and NPA when compared to Dhanalakshmi bank. In the context of management efficiency, Federal bank and SIB jointly holds the first position and it's an indication of their high productivity and goods working management. Federal bank has better earning capacity when compared to other two banks. It is a clear indication of their cash flow management. However, Dhanalashmi bank has secured the first position in term of liquidity. It shows they have good working capital management. Overall, the operational efficiency of Federal bank is ahead of the other banks. The present study depicted that though ranking of ratios is different, but there is no statistically significant difference between the CAMEL ratios. The performance of Dhanalakshmi bank was not satisfactory. So bank management should take corrective measures to improve their capital adequacy, asset quality, management

efficiency and earning capacity. They should adopt a new strategy and required complete reforms to stay in the high competitive industry.

Free Items

Free items help attract customers to a bank. Some consumers may be persuaded to switch banks with the promise of a small gift certificate or household item. Other customers may respond to free money for opening an account with a certain minimum balance or opening a premium account with the bank. To reduce the amount of free items given away, banks may partner with a local car company or large retail chain and enter new customer names into a drawing for a free car or large gift certificate. Banks must analyze the targeted customer base to determine what type of free items will most appeal to potential customers.

Word of Mouth

Word of mouth has the greatest potential to attract customers to a bank and draw customers away from a bank. Encourage current customers to direct friends and family members to the bank by offering referral incentives in the form of lower fees or cash rewards. Become involved in the community by sponsoring a local sports team, setting up a booth at a local festival or providing a mobile ATM machine for a local event. Be sure to provide stellar customer service to all current users because a customer sharing a negative experience about the bank may quickly erase the effect of any positive marketing efforts in a community.

Credit Cards

Offer specialized credit cards for consumers, such as cards designed for college students, small-business owners or mature bankers. Cards with low interest rates and few fees typically attract more customers. A card that offers rewards or a cash-back program may also appeal to consumers. Offer a line of prepaid debit cards, and encourage parents to set up accounts for their children or allow teens to become authorized users on a parent's credit card. Teens who have already established a relationship with a bank may be more likely to continue working with that bank when they turn 18 or begin earning their own income.

Incorporating Technology

With the popularity of the Internet and smartphones, many customers have turned to doing the majority of their banking online. Update your bank's website to make it easy to navigate, and allow users to transfer money and view account information from multiple locations. Include descriptions of all products on your website to give potential customers the information they need to make a decision. Offer online customer service options for customers who do not have time to visit a branch or wait on the phone.

The Risks & Advantages of Online Banking

Online banking is one of the services that your financial institution can offer you. More people are relying on Internet-only banking as their only way of doing business. Before agreeing to online account access or before starting an account with an Internet-based bank, you should become familiar with the risks and advantages of online banking.

Identity Theft

A financial institution may use state-of-the-art security measures to protect your information, but once you have your account available online, your information is at risk from hackers, according to the article titled "Online Banking--Advantages and Disadvantages" as published on Financial Web. Computer criminals are always working to bypass existing security systems, and if your financial accounts are held on a bank's server

then they could be fair game to being stolen. All of your personal information, including your Social Security Number, that is associated with your account is as risk as well.

Phishing

Phishing is when a criminal sends out emails to people with fake links trying to get those people to click on the links and give away their personal information, according to the article titled "Banking Securely Online" published by the US Computer Emergency Readiness Team. When you set up an online bank account, you may get one of these emails. If you click on the fake link, it will take you to a website that looks and acts like your bank's login page. The page was actually set up to steal your login information. Within minutes of having your login information, the hacker will log in to your account and begin stealing your money and your personal information.

Access

With online banking you can access your account 24 hours a day, seven days a week and 365 days a year. You can pay bills online by using your online checking account. You can transfer funds, change your personal account preferences and you can view up-to-date account statements whenever you want.

Online Services

You can access online services with your Internet banking account that you may not be able to access any other way, according to Financial Web. You can apply for loans online with your bank, request an increase in your credit limit and review the information for all of the different investment products your bank offers without leaving your home.

Rules for Excellent Customer Service in Banking

Banking is a competitive industry, and as such, high quality customer care is invaluable to cultivating and retaining customers. In addition to communicating clearly, limiting wait times and offering competitive rates and high quality products and services, the banking industry must provide continually evolving technology services to customers.

Tech-Based Options

Banking customers want to be able to access and use their accounts from any number of personal mobile devices at any time. Staying current with the latest in accounting and online banking technology can help you maintain a happy bank customer. Customers also expect high-tech security features, as well as fast access to knowledgeable human bank representatives if a problem arises.

Personalized Services

While high-tech is in demand, so too are personalized services. Offer patrons the opportunity to do their banking in person via teller windows and drive-through stations without additional fees. Tailor services to the individual situations of customers to ensure you're meeting all of their needs. Include online bill paying, direct deposit, mobile banking and paperless statements as customer options. The more options for doing business with your bank and the more convenient it is to use your services, the more satisfied your customers are likely to be.

Fee Reduction

Banks range dramatically in the types and amounts of fees they charge consumers. From transaction and maintenance fees to ATM usage, checks, money orders and wire transfers, bank fees can be a point of contention for consumers. Reducing or eliminating customer fees can help create a sense of better service levels for consumers, particularly when bank representatives emphasize the services that provided for no additional charge.

Friendly Staffers

Friendly, knowledgeable bank employees can project a positive image of your institution to customers. Continually train staffers on best practices in customer care and teach problem-solving skills. Employees should be able to address common customer concerns, questions and complaints and resolve matters quickly. They should also be able to explain how your financial products differ from competitors and make educated product recommendations.

Proactive Measures

Don't just provide good customer care after a problem arises -- continually monitor customer satisfaction levels through surveys and online feedback venues. Ask customers what they need that you aren't providing and take steps to continually improve service offerings. When you introduce new financial products, let customers know about them and offer existing clients specials deals and rates you use to bring in new business. This can prevent customers from jumping ship and banking elsewhere.

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