

# E-BANKING IN INDIA: CHALLENGES

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**Abstract:** Financial sector plays an important role in the economic development of a country. Banking is the lifeline of an economy. A strong and healthy banking system is important requirement for economic growth and development of a country. Indian banking industry today is an IT basis transaction. The implementation of internet in banking organizations has modernized the banks. Implementing the internet banking approach has benefited the both i.e. consumers as well as banks. Considering the benefits, the banks all over the globe have implemented the internet banking and banking organizations in India are no exception. The competition among the banks has led to the increasing total banking automation in the Indian banking industry. E-Banking is a generic term encompassing internet banking, telephone banking, mobile banking, debit cards, credit cards etc. Through E-Banking the bank wants to introduce the core concept of IT based Enabled Services (ITES). The E-Banking services are executed only the customer and these e-banking services would fully integrate with the core banking solution that is already in usage. The objective of the present paper is to examine and analyze the progress made by Internet banking services in India.

**Keywords:** *E-Banking, Information Technology, Internet Banking, debit / credit card India.*

## INTRODUCTION

Information Technology is a necessary tool in today organization. Banking system today operate in a highly globalization, liberalization and a competitive environment. Banking has introduced new business paradigm. It is increase playing a significant role in improving the services in the banking industry. Indian banking industry has developments due to sweeping changes that are taking place in the information technology.

Internet Banking refers to a system allows separate customers to perform banking activities such as home, office and other locations via internet based secured networks. Internet or online banking through traditional banks enable customers to perform all routine transactions, such as fund transfers, balance inquiries, bill payment and shopping -payment requests, and some transaction offer online loan and credit card applications.

Internet banking is a online based service that enables the banks customers to access their bank account information. It is permits the customers to log on to the banks website with the help of bank issued identification and personal identification number (PIN). The banking system verifies the user and provides access to the requested services, the range of products and service offered by each bank on the internet differs widely in their content.

## OBJECTIVES OF THE STUDY

- To study the current status of financial innovations in Indian banking sector.
- To identify various e-banking services/products adopted by India.
- To study the challenges faced in E-banking.

## CURRENT STATUS OF BANKING SYSTEM IN INDIA

### *Reserve Bank of India (RBI)*

The country had no central bank prior to the establishment of the RBI. The RBI is the supreme monetary and banking authority in the country and controls the banking system in India. It is called the Reserve Bank' as it keeps the reserves of all commercial banks.

### *Commercial Banks*

Commercial banks may be defined as, any banking organization that deals with the deposits and loans of business organizations. Commercial banks issue bank checks and drafts, as well as accept money on term deposits. Commercial banks also act as moneylenders, by way of installment loans and overdrafts. Commercial banks also allow for a variety of deposit accounts, such as checking, savings, and time deposit. These institutions are run to make a profit and owned by a group of individuals.

## Types of Scheduled Commercial Banks

**Public Sector Banks**

These are banks where majority stake is held by the Government of India. Examples of public sector banks are: SBI, Bank of India, Canara Bank, etc.

**Private Sector Banks**

These are banks majority of share capital of the bank is held by private individuals. These banks are registered as companies with limited liability. Examples of private sector banks are: ICICI Bank, Axis bank, HDFC, etc.

**Foreign Banks**

These banks are registered and have their headquarters in a foreign country but operate their branches in our country. Examples of foreign banks in India are: HSBC, Citibank, Standard Chartered Bank, etc

**Regional Rural Banks**

Regional Rural Banks were established under the provisions of an Ordinance promulgated on the 26th September 1975 and the RRB Act, 1976 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The area of operation of RRBs is limited to the area as notified by Go I covering one or more districts in the State.

**E-BANKING**

E-banking is the term of significant and encompasses the entire of technology initiatives that have taken place in the banking industry. E-banking is a term making use of electronic transaction through telephone, mobile phones, internet etc. for delivery of banking services and products. The concept and scope of e-banking is still in the transitional stage. E-banking has broken the barriers of branch banking.

**CURRENT STATUS OF E-BANKING IN INDIA**

Internet Banking has become an integral part of banking system in India. The concept of e-banking is of fairly recent origin in India. Till the early 90's traditional model of banking i.e. branch based banking was prevalent, but after that non-branch banking services were started. The credit of launching internet banking in India goes to ICICI Bank. Citibank and HDFC Bank followed with internet banking services in 1999. 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. According to report of RBI in jan 2016, there are 196079 ATM and 1337310 point of sale devices in India. To cope with the pressure of growing competition, Indian commercial banks have adopted several initiatives and e-banking is one of them. The competition has been especially tough for the public sector banks, as the newly established private sector and foreign banks are leaders in the adoption of e-banking.

Indian banks offer to their customers following e-banking products and services:

- Automated Teller Machines (ATMs)
- Internet Banking
- Mobile Banking
- Phone Banking
- Tele banking
- Electronic Clearing Services
- Electronic Clearing Cards
- Smart Cards
- Door Step Banking
- Electronic Fund Transfer

**Emerging challenges of banking sector**

- Asset quality is under tremendous pressure due to continued economic slowdown and increase in the rise of the levels of Gross nonperforming advances and NPA's.
- One of the major problems is Large Over dues of farmers in small branches of rural areas. And Government decision to waive to all farmers loans has added in the difficulties of such banks.
- Indian banks are facing bad loans or Non-performing assets (NPA), which means loans which are not paid by the borrowers on time, and hence causing huge burden on banks.

- Even after all the efforts made by the government, banks at rural areas are still in loss as rural people are still not familiar with banking system..
- There is also risk from political interference as the government can interfere with banking policies at the time of budget implementation.
- One of the emerging threats is Cyber threats as the most of the transaction are made through digital channels, which are not 100% secure.
- Many senior bank workers are still not familiar with the use of technologies in bank and young and inexperienced are replacing them.

### Steps taken by Indian banking sector

- All banks are wholeheartedly working for the complete implementation of PMJDY (Pradhan Mantri Jan Dhan Yojna) making banking service available to everyone.
- For farmers, Kisan Credit Card scheme is launched to help them with Loans through banks.
- Protection of bank customers' information has one of the trust areas for RBI. And for this RBI has issued a charter of customer rights on the global best practices.
- With the implementation of KYC/AML norms banks are now able to remove all the fake accounts and with this monitoring of transactions is easy.
- To make payment easier, accessible and secure, banks and Government together launched AEPS (Adhaar enabled payment system).
- Banks are getting digitized means converting data into digital format, thus providing better services to customers.

### CHALLENGES IN E-BANKING

**Security Risk:** The problem related to the security has become one of the major important concerns for banks. A large group of customers refuses to option for e-banking services due to uncertainty and security concerns. According to the IAMAI Report (2006), 43% of internet users are not using internet banking in India because of security concerns. So it's a big challenge for marketers and makes consumers satisfied regarding their security concerns, which may further increase the online banking use.

**The Trust Factor:** Trust is the biggest hurdle to online banking for most of the customers. Conventional banking is preferred by the customers because of lack of trust on the online security. They have a perception that online transaction is risk due to which frauds can take place. While using e-banking services lot of questions arises in the mind of customers such as: Did transaction go through? Did I push the transfer button once or twice? Trust is among the significant factors which influence the customer's willingness to engage in a transaction with web merchants.

**Customer Awareness:** Awareness among consumers about the e-banking services and procedures is lower side in Indian scenario. Banks are not able to proper information about the use, benefits and facility of internet banking. Less awareness of new technologies and their benefits is among one of the most ranked barrier in the development of e-banking.

**Privacy risk:** The risk of disclosing private information & fear of identity theft is one of the major factors that inhibit the consumers while opting for internet banking services. Most of the consumers believe that using online banking services make them vulnerable to identity theft. According to the study consumers worry about their privacy and feel that bank may invade their privacy by utilizing their information for marketing and other secondary purposes without consent of consumers.

**Strengthening the public support:** In developing countries, in the past, most e-finance initiatives have been the result of joint efforts between the private and public sectors. If the public sector does not have the necessary resources to implement the projects it is important that joint efforts between public and private sectors along with the multilateral agencies like the World Bank, be developed to enable public support for e-finance related initiatives.

**Availability of Personnel services:** In present times, banks are to provide several services like social banking with financial possibilities, selective up gradation, computerization and innovative mechanization, better customer services, effective managerial culture, internal supervision and control etc. Therefore, banks must be able to provide complete personnel service to the customers who come with expectations.

**Implementation of global technology:** There is a need to have an adequate level of infrastructure and human capacity building before the developing countries can adopt global technology for their local requirements. In developing countries, many consumers either do not trust or do not access to the necessary infrastructure to be able to process e-payments.

**Competition:** The nationalized banks and commercial banks have the competition from foreign and new private sector banks. Competition in banking sector brings various challenges before the banks such as product positioning, innovative ideas and channels, new market trends, cross selling ad at managerial and organizational part this system needs to be manage, assets and contain risk. Banks are restricting their administrative folio by converting manpower into machine power i.e. banks are decreasing manual powers and getting maximum work done through machine power. Skilled and specialized man power is to be utilized and result oriented targeted staff will be appointed.

**Handling Technology:** Developing or acquiring the right technology, deploying it optimally and then leveraging it to the maximum extent is essential to achieve and maintain high service and efficiency standards while remaining cost effective and delivering sustainable return to shareholders. Early adopters of technology acquire significant competitive advances Managing technology is therefore, a key challenge for the Indian banking sector.

#### **Major challenges faced by the online banking industry**

- **Traditional banking habits:** Most of the US adults participate in online banking; on the other hand, there are still some people who don't use online banking. A majority of such people are well versed in traditional banking. Such resistance to change is typically due to a lack of trust in the online system or the incompetence to operate online portals. And this is why banks are influencing people to adopt online banking. Banks can simply prove the benefits of online banking and disadvantages of traditional banking to their customers.
- **Security and fraud instances:** This is one of the most significant challenges for banks promoting online banking. In traditional banking, robbers break into the banks to steal money, whereas in online banking hackers can break into customers details and illegally transfer money.
- **Cross-border transactions:** The implementation of cross-border transaction plays a vital role in the global trade and is one of the remarkable success factors of online banking. Historically cross-border payments have been slow, incompetent, and expensive because most of the banks still use traditional infrastructure including national banking infrastructure, which results in non-uniform development and software platforms that confuse cross-border transaction. To overcome these challenges, new technologies including block chain have been promising to enable smooth cross-border transactions.
- **Acceptance of Customer:** Proper understanding of the customer is the major aspect of the E-banking. It is known that computer literacy in India is yet very low and is problems in fast acceptance of internet. Attitude of the Indian customer needs to be changed by giving awareness about technical terms in internet banking. However, it supports in the fast changing technical scenario, the obsolesce of technology fast. Hence there is always lack of skilled personal and fear of technology.
- **Costly Technology:** In connection with Startup cost e-banking is huge at initial level for acquiring personal computer and other equipments; oneself to do online banking is still not with reach of the middle class & upper middle class customers. The cost of maintenance of all equipments like, modem, routers, bridges and network management systems is very high. The cost of sophisticated hardware and software and skill level of people needed. In Internet banking there is need of skilled employees or knowledgeable professionals to route the banking transactions via internet. Banks can employ software application developers, database administrators and training to existing bank staff on the changing systems and procedures who can handle Internet banking applications under proper supervision.
- **Issues in Security:** In a paper less transactions, many problems of security are involved. A secrecy threat as circumstensive decision to cause the economic hardship to data, destruction of network resources disclosure, modification of data or fraud, denial in services and distortion of information. Providing appropriate security of using encryption techniques, implementation of firewalls and virus protection software etc.
- **Legal Issues:** In today's banking world, legal framework for recognizing the validity of banking transactions. Conducted through the internet is still being put in place? Information technology act provides security & legal framework for e-commerce transactions as well as e-banking. Information technology act or RBI suggested that criterion of Digital Signature Certification Board for authentication of electric records and communication with digital signatures.

## CONCLUSION

At the time, the concept of internet banking system has got attention in the Indian situation. Most of the banks have already implemented the e-banking services facilities, as these services are benefit to both (i.e.) banks as well as consumers. The banks are facing many challenges and many opportunities are available with the banks. Many financial innovations like ATMs, credit cards, RTGS, debit cards, credit cards, mobile banking internet banking etc. have completely changed the face of Indian banking system. Thus, there is a paradigm shift from the seller's market to buyer's market in the industry and finally it affected at the bankers level to change their approach from "conventional banking to convenience banking" and "mass banking to class banking". The shift has also increased the degree of accessibility of a common man to bank for his variety of needs and requirements. In years to come, e-banking will not only be acceptable mode of banking but will be preferred mode of banking.

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