

E-Banking in India: An Overview

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Abstract

Traditionally, banking activities were confined to acceptance of deposits, granting loans, creation of credit, custodian and agency services. In the present scenario of liberalisation and globalisation, banks offer a wide range of financial services like merchant banking, leasing and term-finance, capital-market related activities and other financial services. Moreover, banks are no longer confined to a particular location or a branch; rather they use a number of platforms to address the needs of its consumers and E-Banking is one such platform for reaching out to consumers. Simply speaking, E-Banking refers to the provision of traditional banking services delivered through an electronic backbone, viz. Internet. In this context, an attempt is made in this paper to give a brief overview of E-Banking in India. The paper is a descriptive analysis of e-banking in India and is based entirely on secondary data. More specifically, the paper seeks to throw light on the concept of e-banking in India and to highlight role of e-banking in Indian economy. The study will also examine the present scenario of E-Banking in India and will identify the opportunities and challenges of e-banking in India.

Key-words: Banking, E-Banking, electronic, internet, services.

1. Introduction

Traditionally, banking activities were confined to acceptance of deposits, granting loans, creation of credit, custodian and agency services. In the present scenario of liberalisation and globalisation, banks offer a wide range of financial services like merchant banking, leasing and term-finance, capital-market related activities and other financial services. Moreover, banks are no longer confined to a particular location or a branch; rather they use a number of platforms to address the needs of its consumers and E-Banking is one such platform for reaching out to consumers. Simply speaking, E-Banking refers to the provision of traditional banking services delivered through an electronic backbone, viz. Internet.

Electronic Banking also known as online banking was conceptualised in 1980s. Electronic Banking referred to the use of a terminal, keyboard and TV (or monitor) to access the banking system using a phone line. Online services started in New York, USA in 1981 when four of the city's major banks (Citibank, Chase Manhattan, Chemical and Manufacturers Hanover) offered home banking services using the videotext system. Because of the commercial failure of videotext these banking services never became popular except in

France where the use of videotext was subsidized by the telecom provider and the UK, where the Prestel system was used.

The UK's first electronic banking services was set up by the Nottingham Building Society (NBS) in 1983. The system used was based on the UK's Prestel system and used a computer, such as the BBC Micro, or keyboard (Tandata Td1400) connected to the telephone system and television set. The system (known as 'Home link') allowed on-line viewing of statements, bank transfers and bill payments. In order to make bank transfers and bill payments, a written instruction giving details of the intended recipient had to be sent to the NBS who set the details up on the Home link system. Typical recipients were gas, electricity and telephone companies and accounts with other banks. Details of payments to be made were input into the NBS system by the account holder via Prestel. A cheque was then sent by NBS to the payee and an advice giving details of the payment was sent to the account holder. BACS was later used to transfer the payment directly. Stanford Federal Credit Union was the first financial institution to offer online internet banking. E-banking in India is a recent phenomenon and it marks a paradigm shift in the traditional way of how banks and financial institutions performed their operations in India.

2. Review of Literature

Daniel (1999) defines electronic banking as the delivery of bank's information and services by banks to customers via different delivery platforms that can be used with different terminal devices such as a personal computer and a mobile phone with browser or desktop software, telephone or digital television. **Raghavan (2006)** opined that at present, over 85% of the finished payment transactions are electronic and traditional way of doing banking at the branch level has relatively little importance to electronic banking users. **Mohan (2006)** remarked that Indian banking is at the threshold of a paradigm shift and a significant development has been achieved by banks in offering a variety of new and innovative e-banking services to customers today, which was not thought of before. However, public sector banks have not been able to harness the benefits of computerization. **Kamakodi et al (2008)** found that a wide gap exists in human service in Indian banking while technology based services are exceeding expectations. **Uppal and Chawla (2009)** found that the customers of public sector, private sector and foreign banks in Ludhiana district of Punjab are interested in e-banking services, but at the same time are facing problems like inadequate knowledge, poor network, lack of infrastructure, unsuitable location, misuse of ATM cards and difficulty to open an account. **Sharma (2009)** opined that the trend towards electronic delivery of banking products and services is occurring partly as a result of consumer demand, and partly because of the increasing competitive environment in the global context. **Kumar and Sinha (2009)** cited various instances of hacking and phishing attacks reported throughout India. **Srinivas (2009)** discussed various e-banking channels and suggested security tips for customers which include changing password frequently, abstaining from revealing PIN either via mails or phone, avoiding cyber cafes for net banking etc. **Mishra (2011)** provided useful tips to ensure safety of IB transactions. IB users are advised not to reply to any mail, phone call or letter, asking for the IB information like login id or password, and not to click on any link provided in any mail, claiming to be the link for the bank's website are the important tips, among others.

3. Objectives of the Study

Against this backdrop, the study revolves around the following objectives:

- To give a brief overview of E-Banking in India.
- To examine the opportunities and challenges of E-Banking in India.

4. Methodology

The study is concerned with conceptual and descriptive analysis of E-Banking in India and is entirely based on secondary data. For the purpose of the study, various articles, journals and books on e-banking have been referred to and the website of Reserve Bank of India and that of other nationalised banks have also been accessed for this purpose.

5. E-Banking: Key Issues

5.1. E-Banking: The Concept

Electronic Banking (E-banking) is a product of e-commerce in the field of banking and financial services. E-banking means any user with a personal computer and a browser can get connected to his bank's website to perform any of the virtual banking functions. In e-banking system the bank has a centralized database that is web-enabled. All the services that the bank has permitted on the internet are displayed in menu. Once the branch offices of bank are interconnected through terrestrial or satellite links, there would be no physical identity for any branch. It would be a borderless entity permitting anytime, anywhere and anyhow banking.

E-banking also known as internet banking offers different online services like:

- Inquiry about information regarding client's account balance and card balance
- Account opening instructions
- Online requests for cheque books
- Card account and balance transfer instructions
- Transaction of foreign exchange
- Recording stop-payment instructions
- Initial Public Offers and investment in mutual funds
- Bill payment, electronic shopping and personal expenses

Mostly, these are traditional services offered through Internet as a new delivery channel. Banks are also offering payment services on behalf of their customers who shop in different e-shops, e-malls etc.

5.2. Types of E-Banking

- Deposits, withdrawals, inter-account transfer and payment of linked accounts at an ATM;
- Buying and paying for goods and services using debit cards or smart cards without having to carry cash or a cheque book;
- Using a telephone to perform direct banking- make a balance enquiry, inter-account transfers and pay linked accounts;
- Using a computer to perform direct banking- make a balance enquiry, inter-account transfers and pay linked.

5.3. Services Offered by Banks

Public sector as well as private sector banks permit customers to interact with them and transact electronically with them. Such services include request for opening of accounts, requisition for cheque books, stop payment of cheques, viewing and printing statements of accounts, movement of funds between accounts within the same bank, querying on status of requests, instructions for opening of Letters of Credit and Bank Guarantees etc. They also offer the facility of receipt, review and payment of bills on-line.

The 'Infinity' service of ICICI Bank Ltd. also allows online real time shopping mall payments to be made by customers. HDFC Bank Ltd. has made e-shopping online and real

time with the launch of its payment gateway. It has tied up with a number of portals to offer business-to-consumer (B2C) ecommerce transactions. The first online real time e-commerce credit card transaction in the country was carried out on the Easy3shoppe.com shopping mall, enabled by HDFC Bank Ltd. on a VISA card.

5.4. Challenges of E-Banking in India

- **Infrastructural Drawback:** For online banking to reach a critical mass, there has to be sufficient number of users and the sufficient infrastructure in place. The communication bandwidth available today in India is not enough to meet the needs of high priority services like e-banking and trading.
- **Security Issues:** There exist a variety of security options for e-banking in India like line encryption, branch connection encryption, firewalls, digital certificates, automatic signoffs, random pop-ups and disaster recovery sites to tackle phishing and cyber crimes. However, this is not enough as there is as yet no Certification Authority in India offering Public Key Infrastructure which is absolutely necessary for e-banking. The customer can only be assured of a secured conduit for its online activities if an authority certifying digital signatures is in place.
- **Privacy issues:** Users of Internet Banking Services are required to fill up the application forms online and send a copy of the same by mail or fax to the bank. A contractual agreement is entered into by the customer with the bank for using the Internet banking services. In this way, personal data in the applications forms is being held by the bank providing the service. The contract details are often one-sided, with the bank having the absolute discretion to amend or supplement any of the terms at any time. For these reasons domestic customers for whom other access points such as ATMs, tele-banking, personal contact, etc. are available, are often hesitant to use the Internet banking services offered by Indian banks.

5.5. Opportunities of E-Banking in India

- The setting up of Credit Information Bureau for collecting and sharing credit information on borrowers of lending institutions online has given a fillip to e-banking.
- Real Time Gross Settlement (RTGS) and National Electronic Funds Transfer (NEFT) helps in transmission, processing and settlements of transactions and instructions in real time and this will be a major factor for the growth of E-Banking in India.
- E-Banking has become a popular channel for retail banking and online securities trading. The bank nowadays provides facilities for online transactions of dematerialised securities and enables fund transfers from broker's account to client's account and vice versa.
- Introduction of Wireless Application Protocol (WAP) telephony and mobile banking also provide a huge opportunity to tap the so far untapped rural population that are out of the traditional banking activities. This will also help in achieving the goal of financial inclusion to a large extent.

6. Concluding Remarks and Recommendations

Electronic banking is widely acknowledged both as a medium of delivery of banking services and as a strategic tool for business development. And as such it has gained wide acceptance internationally and is fast catching up in India with more and more banks entering the e-banking domain.

India is still in the early stages of E-Banking growth and development. Competition and changes in technology and lifestyle in the last 10 years have changed the face of Banking. The changes that have taken place impose on banks tough standards of competition and compliance. In this context, Information technology has played a vital role in the advancement of banking system. The reach of Indian banking to every individual is possible because of the computerization process adopted by banking sector. Information technology has not only simplified the operation but it has also given a great comfort an individual who does not have a good knowledge of IT but need to access banking in an optimum manner.

The declining internet and mobile charges, falling prices of PCs and mobile phones, broadband with access through cable and digital subscriber lines etc. would definitely encourage the boom in E-banking in India. However, it has been hounded by negative issues like identity theft and phishing attacks which are the reason why there are still some customers who are wary of using electronic channels for conducting banking transactions. In this context the following measures have been recommended for effective implementation of E-Banking in India.

Banks should conduct intensive training programmes for the employees so that they get themselves acquainted with the various terms, tools and procedure of e-banking.

- Customer awareness initiatives and programmes should be undertaken by the banks to highlight the importance and necessity of e-banking in modern day world as well as to promote the use of e-banking amongst the mass consumers.
- Banks should identify its core competencies and outsource operations like cyber security department, building IT structure on internet to IT firms in order to ease the burden of its own employees.
- Banks should create and sustain customer, investor and regulator confidence by adopting international standards.
- Regular meetings and discussions should be held between customers and the bank regarding exchange of information on threats and vulnerabilities across the functioning of e-banking.
- Banks should also promote mobile banking as a segment of e-banking.

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