

E-Banking in India

Aakriti Arora¹, Dr. Jaideep Sharma²

¹Student, School of Business, Galgotias University

²Associate Professor, Galgotias University

Abstract

“E-banking”- The execution of financial services via internet, reducing cost and increase in convenience for the customer to access the transaction. **E- Banking** is an umbrella term for the process by which a customer may perform banking transactions electronically without visiting a brick-and-mortar institution. The following terms all refer to one form or another of electronic banking: personal computer (PC) banking, Internet banking, virtual banking, online banking, home banking, remote electronic banking, and phone banking. PC banking and Internet or online banking is the most frequently used designations. It should be noted, however, that the terms used to describe the various types of electronic banking.

Introduction

Technology has always been utilized by banks to improve the quality of their products and services, as well as the efficiency of their operations. In order to provide a wide variety of value-added products and services, electronic and communications networks have been in use for a long time. Dial-up, private, and public network connections are all options for distribution, as are a variety of mobile devices. PCs, ATMs, and other similar devices. Because of the extensive use of personal computers and the simplicity with which they can connect to the Internet, customers are increasingly expecting their bank's products and services to be delivered to them via the internet (www). No matter how many times the term "Internet Banking" is used, the services offered by different financial institutions vary greatly in their content and level of sophistication.

Basic, intermediate, and advanced internet banking services are available, with the first level being the most basic. In what is referred to as the Basic Level Service, customers and the general public can access information on a wide range of banking services and products available through the banks' websites. I Customers' e-mail enquiries can be received and responded to through this system. Users can submit instructions and applications for a variety of services on transactional websites at two different levels: the first allows users to make fund-based transactions on their accounts, while the second does not allow them to do so. 3. Fully Transactional Websites provide consumers with Internet banking services that enable them to conduct a wide range of transactions on their accounts, such as moving money, paying bills, signing up for other services offered by the bank, and trading in stocks, among other activities. Customers of traditional banks may be offered these services as an extra form of service, It is possible that these services will be the primary means by which customers of newer banks can receive financial services, whether they are delivered electronically or through another means entirely. When they have no physical presence in the country, they are referred to as "virtual" or "Internet-only" banks. Because it's built on Internet Banking products and services, it's nothing more than traditional banking delivered

over an electronic network. Regulators around the world have been forced to take notice because of the negative effects of this new delivery method. I-unique banking features include the following:

As an added benefit, clients in other countries and legal jurisdictions are no longer restricted by the usual geographical boundaries. This represents a significant step forward. Questionable methods of exposing these transactions for legal/supervisory oversight have been proposed in response.

BANKING

The word "BANK" is derived from the Latin words "Baucus" and "Banquo," which both mean "bench." When European moneylenders and moneychangers first set up shop, they would sit on benches and display large piles of coins from various countries for the purpose of lending and changing money. Today, the practise has evolved.

An Indian banking firm is defined as a corporation that engages in the banking business and has its headquarters in India.

Section 5(b) of the Banking Regulation Act 1949 states that "banking comprises taking for the purpose of lending or investing money from the general public, whether repayable on demand or otherwise, and withdrawing money by cheque, draught, or other means from such deposits."

A banker, according to Sir John Paget, "is defined as a person or entity, corporate or otherwise, who does not (a) accept deposit accounts, (b) accept current accounts, (c) issue and pay cheques, (d) collect cheques, both crossed and uncrossed, on behalf of his or her clients."

Generally speaking, a bank is defined as "a financial institution that deals in money and credit by soliciting deposits from the general public as well as giving loans and credit to businesses and industries," according to the definition.

Below is a breakdown of the Working Group's members.

A Working Group has been established by the Reserve Bank of India to evaluate and recommend international best practises for technical, security, legal, and operational standards in relation to i-banking. The Group is made up of experts in banking regulation and supervision, commercial bank operations, legal issues, and information and communication technologies under the leadership of the Chief General Manager-in-Charge of the Department of Information Technology (ICT). With the help of the bank's Executive Director and a group of bank executives from various departments, the bank established an Operational Group to oversee implementation of the recommendations.

Purpose of The Study

The main purpose of this study to get an overview of the internet banking sector in the Indian economy and study as to how it has helped change the banking habits of various individuals.

Background

Banks have traditionally been in the forefront of harnessing technology to improve their products, services and efficiency. They have, over a long time, been using electronic and telecommunication networks for delivering a wide range of value added products and services. The delivery channels include direct dial – up connections, private networks, public networks etc. and the devices include telephone, Personal Computers including the ATMs, etc. With the popularity of PCs, easy access to Internet and World Wide Web (www), internet is increasingly used by banks as a channel for receiving instructions and delivering their products and services to their customers. This form of banking is

generally referred to as Internet Banking, although the range of products and services offered by different banks vary widely both in their content and sophistication.

Objectives Of The Study:-

The main objectives of the study are:

- To study the awareness level of service class people regarding E-Banking.
- To find out the frequency and the factors that influences the adoption of E-Banking services.
- To measure the satisfaction level of people.
- To understand the problems encountered in by service class people while using E-Banking services (ATM, Telephone banking, etc.)

Limitations :-

1. There were several time constraints.
2. The study is limited to areas of service class people only.
3. The sample size of limited number was taken from the large population for the purpose of study, so there can be difference between results of sample from total population.
4. The study is related to service class people only.
5. People were reluctant to go in to details because of their busy schedules.
6. Merely asking questions and recording answers may not always elicit the actual information sought.
7. Due to continuous change in environment, what is relevant today may be irrelevant tomorrow.

INTERNET – Its Basic Structure and Topology

Internet is a vast network of individual computers and computer networks connected to and communicate with each other using the same communication protocol – TCP/IP (Transmission Control Protocol / Internet Protocol). When two or more computers are connected a network is created; connecting two or more networks create ‘internetwork’ or Internet. The Internet, as commonly understood, is the largest example of such a system. Internet is often and aptly described as ‘Information Superhighway’, a means to reach innumerable potential destinations. The destination can be any one of the connected networks and host computers.

Internet has evolved to its present state out of a US Department of Defense project Arpanet (Advanced Research Project Administration Network), developed in the late 1960s and early 1970s as an experiment in wide area networking. A major perceived advantage of Arpanet was that the network would continue to operate even if a segment of it is lost or destroyed since its operation did not depend on operation of any single computer. Though originally designed as a defense network, over the years it was used predominantly in areas of scientific research and communication. By the 1980s, it moved out of Pentagon’s control and more independent networks from US and outside got connected to it. In 1986, the US NSF established a national network based on ARPA protocol using commercial telephone lines for connectivity. The NSFNet was accessible by a much larger scientific community, commercial networks and general users and the number of host computers.

Security:

One of the biggest attractions of Internet as an electronic medium is its openness and freedom. It is a public domain and there is no restriction on who can use it as long as one adheres to its technical

parameters. This has also given rise to concerns over the security of data and information transfer and privacy. These concerns are common to any network including closed

User group networks. But over the Internet, the dimensions of risk are larger while the control measures are relatively fewer. These issues are discussed in detail in Chapter–4 and Chapter–5 of the report. It will be sufficient to say here that the key components of such concern

1. authentication, viz., assurance of identity of the person in a deal
2. authorization, viz., a party doing a transaction is authorized to do so,
3. the privacy or confidentiality of data, information relating to any deal,
4. data integrity, viz., assurance that the data has not been altered and
5. Non repudiation, viz., a party to the deal cannot deny that it originated the communication or data.

Opportunities

Internet provides an ever-growing market both in terms of number of potential customers and geographical reach. Technological development has made access to Internet both cheaper and faster. More and more people across the globe are accessing the net either through PCs or other devices. The purchasing power and need for quality service of this segment of consumers are considerable. Anybody accessing Internet is a potential customer irrespective of his or her location. Thus, any business targeting final consumers cannot ignore the business potential of Internet.

Internet offers a unique opportunity to register business presence in a global market. Its effectiveness in disseminating information about one's business at a relatively cost effective manner is tremendous. Time sensitive information can be updated faster than any other media. A properly designed website can convey a more accurate and focused image of a product or service than any other media. Use of multimedia capabilities, i.e., sound, picture, movies etc., has made Internet as an ideal medium for information dissemination. However, help of other media is necessary to draw the potential customers to the web site.

The Growth Of Internet Banking:

Internet Banking (Fig. 1) is a product of e-commerce in the field of banking and financial services. In what can be described as B2C domain for banking industry, Internet Banking offers different online services like balance enquiry, requests for cheque books, recording stop-payment instructions, balance transfer instructions, account opening and other forms of traditional banking services. 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, emails etc. Further, different banks have different levels of such services offered, starting from level-1 where only information is disseminated through Internet to level-3 where online transactions are put through. These aspects have been dealt with in brief in the introductory and in the following paragraphs I-banking concerns in B2B domain are discussed.

Considering the volume of business e-commerce, particularly in B2B domain, has been generating, it is natural that banking would position itself in an intermediary role in settling the transactions and offering other trade related services. This is true both in respect of B2C and B2B domains. Besides, the traditional role of financial intermediary and settlement agents, banks have also exploited new opportunities offered by Internet in the fields of integrated service providers, payment gateway services,

etc. However, the process is still evolving and banks are repositioning themselves based on new emerging e-commerce business models.

Indian Scenario

With the integration of business information flow and higher degree of transparency, the banks and other financial services institutions have lost some of the information advantage they used to enjoy and factor in to pricing of their products. However, such institutions have the advantage of long standing relationships, goodwill and brand, which are important sources of assurance in a virtual market. Banks are in fact, converting this goodwill into a business component in e-commerce scenario in providing settlement and other financial services. Some banks have also moved to providing digital certificates for transactions through e-markets.

Banks' strategies in B2B market are responses to different business models emerging in e-commerce. A recent study by Arthur Andersen shows that banks and financial service institutions generally adopt one of three business models to respond to e-business challenges. In the first place, they treat it as an extension of existing business without any significant changes other than procedural and what technology demands. The second strategy takes the same approach as the first but introduces structural changes to the underlying business. In the third approach banks launch e-business platform as a different business from the existing core business and as a different brand of product. There is no definite answer as to which approach is appropriate. Perhaps it depends on the type of market the bank is operating, its existing competencies and the legal and regulatory environment. It is, however, sure that e-banking is evolving beyond the traditional limits of banking and many new products / services are likely to emerge as ecommerce matures.

Future Perspective:

Compared to banks abroad, Indian banks offering online services still have a long way to go. For online banking to reach a critical mass, there has to be sufficient number of users and the sufficient infrastructure in place. The 'Infinity' product of ICICI Bank Ltd. gets only about 30,000 hits per month, with around 3,000 transactions taking place on the Net per month through this service. Though various security options like line encryption, branch connection encryption, firewalls, digital certificates, automatic signoffs, random pop-ups and disaster recovery sites are in place or are being looked at, there is as yet no Certification Authority in India offering Public Key Infrastructure which is absolutely necessary for online banking. The customer can only be assured of a secured conduit for its online activities if an authority certifying digital signatures is in place. The communication bandwidth available today in India is also not enough to meet the needs of high priority services like online banking and trading. Banks offering online facilities need to have an effective disaster recovery plan along with comprehensive risk management measures. Banks offering online facilities also need to calculate their downtime losses, because

Even a few minutes of downtime in a week could mean substantial losses. Some banks even today do not have uninterrupted power supply unit or systems to take care of prolonged power breakdown. Proper encryption of data and effective use of passwords are also matters that leave a lot to be desired. Systems and processes have to be put in place to ensure that errors do not take place.

RISK IN E-BANKING:

A major driving force behind the rapid spread of i-banking all over the world is its acceptance as an extremely cost effective delivery channel of banking services as compared to other existing channels. However, Internet is not an unmixed blessing to the banking sector. Along with reduction in cost of transactions, it has also brought about a new orientation to risks and even new forms of risks to which banks conducting i-banking expose themselves. Regulators and supervisors all over the world are concerned that while banks should remain efficient and cost effective, they must be conscious of different types of risks this form of banking entails and have systems in place to manage the same. An important and distinctive feature is that technology plays a significant part both as source and tool for control of risks. Because of rapid changes in information technology, there is no finality either in the types of risks or their control

Measures. Both evolve continuously. The thrust of regulatory action in risk control has been to identify risks in broad terms and to ensure that banks have minimum systems in place to address the same and that such systems are reviewed on a continuous basis in keeping with changes in technology. In the following paragraphs a generic set of risks are discussed as the basis for formulating general risk control guidelines, which this Group will address.

Research Methodology

Research is defined as human activity based on intellectual application in the investigation of matter. The primary purpose for applied research is discovering, interpreting, and the development of methods and systems for the advancement of human knowledge on a wide variety of scientific matters of our world and the universe.

The term “research” is also used to describe an entire collection of information about a particular subject.

Methodology is the method followed while conducting the study on a particular project. Through this methodology a systematic study is conducted on the basis of which the basis of a report is produced.

It is a written game plan for conducting Research. Research methodology has many dimensions. It includes not only the research methods but also considers the logic behind the methods used in the context of the study and explains why only a particular method or technique has been used. It also helps to understand the assumptions underlying various techniques and by which they can decide that certain techniques will be applicable to certain problems and other will not. Therefore in order to solve a research problem, it is necessary to design a research methodology for the problem as the some may differ from problem to problem.

Literature Review

Banks in India are at different stages of the web-enabled banking cycle. Initially, a bank, which is not having a web site, allows its customer to communicate with it through an e-mail address; communication is limited to a small number of branches and offices which have access to this e-mail account. As yet, many scheduled commercial banks in India are still in the first stage of Internet banking operations.

With gradual adoption of Information Technology, the bank puts up a web-site that provides general information on the banks, its location, services available e.g. loan and deposits products, application forms for downloading and e-mail option for enquiries and feedback. It is largely a marketing or

advertising tool. For example, Vijay a Bank provides information on its web-site about its NRI and other services. Customers are required to fill in applications on the Net and can later receive loans or other products requested for at their local branch. A few banks provide the customer to enquire into his demat account (securities/shares) holding details, transaction details and status of instructions given by him. These web sites still do not allow online transactions for their customers. Some of the banks permit customers to interact with them and transact electronically with them. Such services include request for opening of accounts, requisition for cheque books, and 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. These services are being initiated by banks like ICICI Bank Ltd., HDFC Bank Ltd. Citibank, Global Trust Bank Ltd., UTI Bank Ltd., Bank of Madura Ltd., Federal Bank Ltd. etc. Recent entrants in Internet banking are Allahabad Bank (for its corporate customers through its 'All net' service) and Bank of Punjab Ltd. State Bank of India has announced that it will be providing such services soon. Certain banks like ICICI Bank Ltd., have gone a step further within the transactional stage of Internet banking by allowing transfer of funds by an account holder to any other account holder of the bank.

CONCLUSION

The usage of E-banking is all set to increase among the service class. The service class at the moment is not using the services thoroughly due to various hurdling factors like insecurity and fear of hidden costs etc.

So banks should come forward with measures to reduce the apprehensions of their customers through awareness campaigns and more meaningful advertisements to make E-banking popular among all the age and income groups. Further, with increasing consumer demands, banks have to constantly think of innovative customized services to remain competitive.

E-Banking is an innovative tool that is fast becoming a necessity. It is a successful strategic weapon for banks to remain profitable in a volatile and competitive marketplace of today.

In future, the availability of technology to ensure safety and privacy of e-transactions and the RBI guidelines on various aspects of internet banking will definitely help in rapid growth of internet banking in India.

References

Websites:

1. www.banknetindia.com
2. www.bharatbook.com
3. www.sbi online.com
4. www.google.com
5. Financial Express (News Paper).
6. Financial Services Regulatory Report – www.mayerbrown.com
7. Bank for International Settlements-
8. Journal of Internet Banking and Commerce
9. E-Commerce