

# Digital Banking: A Descriptive study in Indian Scenario

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**Abstract:** Today banks operate in an extremely globalized, liberalized, privatized and a competitive environment. Indian banking industry has witnessed an incredible growths due to extensive changes that are taking place in the information technology. The development and the increasing progress that is being experienced in the Information and Communication Technology have brought lot of changes in almost all facets of life. In the Banking Industry, it has been in the form of online or e-banking, which is now replacing the traditional banking practice. The e-banking constitutes an electronic alternative network of payments and benefit of services. E-banking has the potential to transform the banking business as it significantly lowers transaction and delivery costs. Today e-banking has experienced phenomenal growth and has become one of the main avenues for banks to deliver their products and services. Online banking has a lot of benefits which add value to customers' satisfaction in terms of better quality of service offerings and at the same time enable banks gain more competitive advantage over other competitors. There are some associated challenges identified in the study that seem to hinder the success of e-banking services and thus constitute major concern to both financial institutions and customers. This paper aims to present the E-Banking situation and challenges in India.

**Key Words:** E-Banking, ATM, banks, customers etc.

## 1. INTRODUCTION:

Digital banking (e-banking), also known as Internet banking is defined as the automated delivery of new and traditional banking products and services directly to customers through electronic, interactive communication channels. E-banking includes the systems that enable financial institution customers, individuals or businesses, to access accounts, transact business, or obtain information on financial products and services through a public or private network. Customers access e-banking services using an intelligent electronic device, such as a personal computer (PC), personal digital assistant (PDA), automated teller machine (ATM), kiosk or Touch Tone telephone. The use of e-banking has brought many benefits amongst which include: there are no barrier limitations; it is convenient; services are offered at minimal cost; it has transformed traditional practices in banking; the only way to stay connected to the customers at any place and any time is through internet applications; it results in high performance in the banking industry through faster delivery of information from the customer and service provider; customers prefer the use of e-banking because it saves time; it makes possible the use of innovative product or service at a low transaction fees and it encourages queue management which is one of the important dimensions of e-banking service quality.

E-banking is a generic term for delivery of banking services and products through electronic channels, such as the telephone, the internet, the cell phone, etc. The concept and scope of E-banking is still evolving. It facilitates an effective payment and accounting system thereby enhancing the speed of delivery of banking services considerably. While E-banking has improved efficiency and convenience, it has also posed several challenges to the regulators and supervisors. Several initiatives taken by the government of India, as well as the Reserve Bank of India (RBI), have facilitated the development of E-banking in India. The government of India enacted the IT Act, 2000, which provides legal recognition to electronic transactions and other means of electronic commerce. The RBI has been preparing to upgrade itself as a regulator and supervisor of the technologically dominated financial system. It issued guidelines on risks and control in computer and telecommunication system to all banks, advising them to evaluate the risks inherent in the systems and put in place adequate control mechanisms to address these risks. The existing regulatory framework over banks has also been extended to E-banking. It covers various issues that fall within the framework of technology, security standards, and legal and regulatory issues.

The E-banking was firstly introduced in India by the ICICI around 1996. There after many other banks like HDFC, IndusInd bank, IDBI, Citibank Trust Banks, UTI, etc. followed the service. As today private and foreign bank had started capturing the market through e-banking hence the competition is heating up and the lack of technology can make a bank loose a customer. So now the public banks are breaking the fetters of traditional set-up and gearing up to face the competition posed by the private sector counterparts.

## **2. RATIONAL OF THE STUDY:**

Today banks operate in an extremely globalized, liberalized, privatized and a competitive environment. Indian banking industry has witnessed an incredible growths due to extensive changes that are taking place in the information technology. The development and the increasing progress that is being experienced in the Information and Communication Technology have brought lot of changes in almost all facets of life. In the Banking Industry, it has been in the form of online or e-banking, which is now replacing the traditional banking practice. The e-banking constitutes an electronic alternative network of payments and benefit of services. E-banking has the potential to transform the banking business as it significantly lowers transaction and delivery costs. Today e-banking has experienced phenomenal growth and has become one of the main avenues for banks to deliver their products and services. Online banking has a lot of benefits which add value to customers' satisfaction in terms of better quality of service offerings and at the same time enable banks gain more competitive advantage over other competitors. There are some associated challenges identified in the study that seem to hinder the success of e-banking services and thus constitute major concern to both financial institutions and customers. This paper aims to present the E-Banking situation and challenges in India.

## **3. RESEARCH METHODOLOGY:**

The source of the information in this research study is the secondary data. This research study is purely based on the available information on internet regarding the E-Banking. All the available Journals, Articles, papers provided necessary information are used to reach outcome of the research study.

## **4. OBJECTIVES OF THE STUDY**

- To identify various digital banking benefits to customers provided by Indian banks.
- To study the challenges faced by Indian banks while operating digital banking services.
- To study the importance of Internet Banking in Indian scenario.

## **5. EVOLUTION OF DIGITAL BANKING:**

E-banking came into existence in UK and USA in 1920s. It became prominently popular during 1960s through electronic funds transfers and credit cards. The concept of web-based banking came into existence in Europe and USA in the beginning of 1980s. It has been estimated that around 40 percent of banking transaction would be done through internet. The E-banking was firstly introduced in India by the ICICI around 1996. There after many other banks like HDFC, IndusInd bank, IDBI, Citibank Trust Banks, UTI, etc. followed the service. As today private and foreign bank had started capturing the market through e-banking hence the competition is heating up and the lack of technology can make a bank loose a customer. So now the public banks are breaking the fetters of traditional set-up and gearing up to face the competition posed by the private sector counterparts.

## **6. DIGITAL BANKING IN INDIA:**

E-banking is of equally recent origin in India. The traditional model for banking has been through branch banking. Only in the early 1990s there has been start of non-branch banking services. The good old manual systems on which Indian Banking depended upon for centuries seem to have no place today. The credit of launching internet banking in India goes to ICICI Bank. Citibank and HDFC Bank followed with internet banking services in 1999. 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 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. 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- 2011-1", for

the Reserve Bank and banks which provides an indicative road map for enhanced usage of IT in the banking sector.

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
- Telebanking
- Electronic Clearing Services
- Electronic Clearing Cards
- Smart Cards
- Door Step Banking
- Electronic Fund Transfer

## 7. BENEFITS OF DIGITAL BANKING:

There are plenty of perks offered by banks to customers who adopt E-banking over the traditional visit physically to the nearest branch office. Some benefits are as follows:

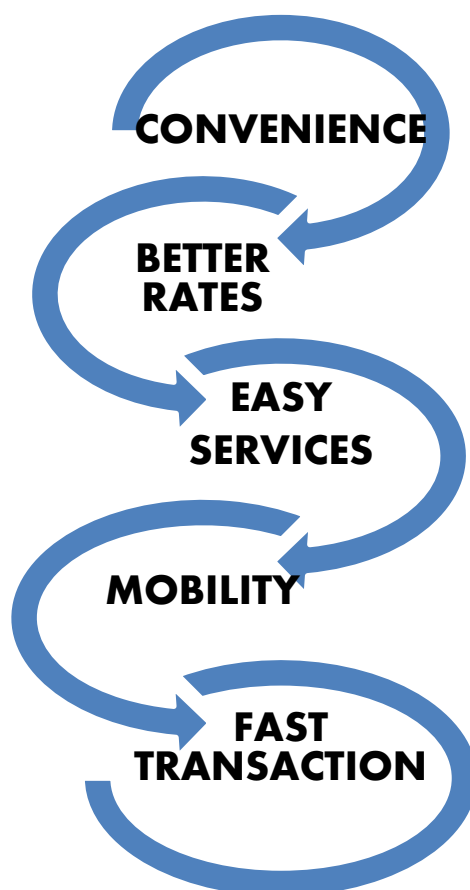


Fig.1 Benefits of E Banking

### 7.1 CONVENIENCE:

This is the single most important benefits that outweigh any shortcoming of internet banking. Making transactions and payments right from the comfort of home or office at the click of a button without even having to step out is a facility none would like to forego. Keeping a track of accounts through the internet is much faster and convenient

as compared to going to the bank for the same. Even non transactional facilities like ordering check books online, updating accounts, enquiring about interest rates of various financial products etc become much simpler on the internet.

### **7.2 BETTER RATES:**

The banks stand to gain significantly by the use of internet banking as it implies lesser physical effort from their end. The need to acquire larger spaces for offices and employ more staff to deal with the customers is significantly reduced making it financially beneficial to the banks. This means that a portion of savings accrued can be passed on to the customers in terms of higher rates on deposits and lower rates on loans. To encourage internet banking most banks offer minimum or no deposit accounts for online banking and lower penalties on early withdrawal of Fixed Deposits.

### **7.3 SERVICES:**

Technology has made it extremely convenient for the bank as well as the customer to access to a host of wonderful services by simply logging in. These services include financial planning capabilities, functional budgeting and forecasting tools, loan calculators, investment analysis tools and equity trading platforms which are available as simple applications on the bank's website. Additionally most banks also provide the facility of online tax forms and tax preparation.

### **7.4 MOBILITY:**

Internet banking has a step further in the last few years in the form of mobile internet banking which accords unlimited mobility to the customer who can now handle financial transactions even while on the move.

Another important benefit of the concept of internet banking is that it is good for the environment as it cuts down the usage of paper, reduces pollution as people do not have to travel physically and also does not add emissions.

## **8. DRAWBACKS OF E-BANKING:**

However the current trend of exclusively using the online mode to make all kinds of transactions has a few pitfalls which may prove costly in the long run unless guarded against from the beginning. Some of these are as follows:

### **8.1 LOSS OF RELATIONSHIPS:**

Online transactions take a toll on the relationship with the banker which the traditional visit to the branch office used to foster. Personal relationship with the staff at the banks comes handy when requesting for faster loan approval or a special service which may not be available to the public. The manager has many discretionary powers such as waiving of penal interest or service fees which were often taken advantage of by better acquaintance with the staff. Additionally personal contact also meant that the banker would provide essential financial advice and insights which are beneficial to the customer.

### **8.2 COMPLEX TRANSACTIONS:**

There are many complex transactions which cannot be sorted out unless there is a face to face discussion with the manager that is not possible through internet banking. Solving specific issues and complaints requires physical visit to the bank and cannot be achieved through the internet. Online communication is neither clear nor pin pointed to help resolve many complex service issues. Certain services such as the notarization and bank signature guarantee cannot be accomplished online.

### **8.3 SECURITY:**

This is the biggest pitfall of the internet banking scheme which needs to be guarded against by the common customer. Despite the host of sophisticated encryption software is designed to protect your account there is always a scope of hacking by smart elements in the cyber world. Hacker attacks, phishing, malware and other unauthorized activity are not uncommon on the net. Identity theft is yet another area of grave concern for those who rely exclusively on internet banking. Most banks have made it mandatory to display scanned copies of cleared checks online to prevent identity theft. It is essential to check bank's security policies and protections while opening an account and commencing the usage of online banking facilities.

Online banking is definitely a significant move in the right direction as far as the convenience of the customer as well as the banker are concerned but it must be applied with adequate precaution to avoid falling prey to unscrupulous elements poaching the internet.

## **9. CHALLENGES IN ACCEPTANCE OF DIGITAL BANKING IN INDIA:**

E-banks are facing business challenges. For the transactions made through internet, the service charges are very low. Unless a large number of transactions are routed over the Web the e-banks cannot think of profit. There is lack of preparedness both on part of banks and customers in the adoption of new technological changes. Also there is lack of proper infrastructure for the installation of e-delivery channels. Some of major challenges in e-banking are as follows

### **9.1 SECURITY RISK:**

The most serious threat faced by e-banking is that it is not safe and secure all the time. There may be loss of data due to technical defaults. The problem related to the security has become one of the major concerns for banks. A large group of customers refuses to opt for e-banking facilities due to uncertainty and security concerns. According to the IMAI 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.

### **9.2 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.

### **9.3 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 risky due to which frauds can take place. While using e-banking facilities lot of questions arise 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 customers' willingness to engage in a transaction with web merchants.

### **9.4 CUSTOMER AWARENES:**

Awareness among consumers about the e-banking facilities and procedures is still at lower side in Indian scenario. Banks are not able to disseminate 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.

### **9.5 LESS INTERNET PENETRATION IN INDIAN CONTEXT:**

The internet banking channel has evolved over the years. In 2011, 60% of the times basic transactions in banks were conducted in North America through online channels, whereas internet banking usage in India increased from 1 % in 2006 to 7 % in 2011. So the knowledge and availability of internet is still a one of the biggest challenges that prevails in Indian context. According to the report of IMAI 2006 around 22% of internet users do not have knowledge about transferring online. So the penetration of internet and knowledge related to internet are major hurdles.

## **10. LIMITATIONS:**

There are limitations that need to be known and spoken regarding the present study. Focus is placed more on users of E-banking as they can provide correct perception about the subject. Another limitation could be due to a limited number of financial banks covered, and people who participated in this study represented a city like Gwalior but this study does not generalise the behaviour of other customer's belongs to other city of the country. We made an attempt to get the reply from the bank employees but we were unable to do this. Because of this we lost one facet of the study. Also this study does not include all the variables which are responsible for customer satisfaction.

## **11. RECOMMENDATIONS:**

- Banks should create awareness among people about e-banking products and services. Customers should be made literate about the use of e-banking products and services.

- Special arrangements should be made by banks to ensure full security of customer funds.
- Technical defaults should be avoided by employing well trained and expert technicians in field of computers, so that processing failures can be avoided.
- Employees of banks should be given special technical training for the use of e-banking so that they can further encourage customers to use the same.
- Seminars and workshops should be organised on the healthy usage of e-banking especially for those who are ATM or computer illiterate.
- E-banking services should be customised on basis of age, gender, occupation etc. so that needs and requirements of people are met accordingly.
- Government should make huge investments for building the set-up of E-banking literacy.

## 12. CONCLUSION:

As per the findings of Internet and Mobile Association of India (IAMAI), about 23% of the online users prefer internet banking as banking channel in India, second only to ATM which is preferred by 53%.

Further the study reveals that the people are not using internet based bank websites for executing financial transactions in India. The major reasons identified for the same were security concerns (43%), preference for face-to-face transactions (39%), lack of knowledge about transferring online (22%), lack of user friendliness (10%), and lack of the facility in the current bank (2%).

The banking industry has been a leader in the e-business world in recent years. The e-banking revolution has fundamentally changed the business of banking by scaling borders and bringing about new opportunities. In India also, it has strongly impacted the strategic business considerations for banks by significantly cutting down costs of delivery and transactions. The rise of E-banking is redefining business relationships and the most successful banks will be those that can truly strengthen their relationship with their customers. 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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