

# **E-BANKING: ADVANTAGES, CHALLENGES AND OPPORTUNITIES IN THE INDIAN CONTEXT**

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## **Abstract**

There has been an extensive expansion of the Indian financial system, out of which the banking sector is considered as the most significant component. Banks are the lifeline of any economy and are indispensable in a modern society. Today banks have expanded their purview of activities and are getting into new range of products and services like e-banking services, investment banking, mutual funds, general insurance, credit cards, demat services and so on. Due to liberalization, the financial system has a greater role to play than in the past and thus one cannot afford to ignore the importance of existence of a strong Indian banking sector. Increasing levels of competition and information age environment have exposed banks to a variety of challenges like technology, customer service, Basel III norms, new accounting standards, transparency, disclosure and corporate governance. The present study is an attempt to study the status of e-banking in India, growth in e-banking transactions, advantages and risks associated, challenges ahead, opportunities and managerial implications arising out the study.

**Keywords: E-Banking, Challenges, Risks, Opportunities, Managerial Implications.**

## **Introduction**

Banking is the lifeline of an economy. They are considered as vital for the growth and development of the financial system of a country. In the past decade, the overall economy has undergone a phenomenal change in terms of technological updations. With the advent of technology, the banking sector is also not left behind. Online/e-banking/virtual banking has become an important aspect in today's lives. Internet plays vital role between banks and customers to receive and deliver information, this form of banking is described as internet banking.(Reserve Bank of India'2001).Internet banking refers to a system where individual customers are allowed to perform banking activities 24\*7 at off-shore sites such as home, office

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or any other locations via internet based secured networks. Online banking enables bank customers to get access to their accounts and general information on bank products and services through the medium of bank's website without the intervention of sending letters, faxes, original signatures and telephonic confirmation (Thulaniet al.2009).

With the changing times, branch banking is being replaced by Internet banking. It has led to reduction in transaction costs for banks as it allows them to reach to masses without the requirement of branch networks and staff. Banks are thus able to succeed in reducing queues, paper work and per transactions costs. As customers become more and more demanding and knowledgeable, it has become imperative for banks to consider the use of technology effectively in order to respond to their changing requirements.

### **Internet Banking in India**

E-banking came into being in UK and US in 1980s. However, in India, e-banking is still at nascent stage. ICICI was the first bank to introduce internet banking services in India followed by Citibank and HDFC. The Government of India and Reserve Bank are working together to strengthen and develop e-banking in India. IT Act'2002 was enacted by the Government to provide legal recognition to electronic transactions. Most of the public and private banks have started providing Internet banking services to their customers. Indian banks offer the following e-banking services to their customers:

- a) Automatic Teller Machines (ATMs)
- b) Internet Banking
- c) Mobile Banking
- d) Phone banking
- e) Debit and credit cards
- f) NEFT and RTGS transactions
- g) Smart cards

### **Growth in ATMs**

'The Indian banks are trying to increase their penetration with the total number of ATMs reaching 0.18 million. The public sector banks had a major share i.e. around 70% in the total

number of ATMs. The share of off-site ATMs in total ATMs increased to 50.9% in 2015 as compared to 47.9% in 2014. (Source: RBI, Report on trends and progress in India)

### **Debit cards and Credit cards:**

Debit cards remain the most preferred way of carrying out transactions as compared to credit cards. As on 31<sup>st</sup> March' 2015, "Approximately 83% of the debit cards were issued by public sector banks and around 80% of the credit cards were issued by private sector banks." (Source: RBI, Report on trends and progress in India)

### **NEFT and RTGS transactions:**

In the year 2016, total NEFT transactions were Rs.10226 billion, RTGS valued Rs. 100045 billion, mobile banking transactions were valued Rs. 572 billion. In comparison, in the year 2015, NEFT transactions were valued Rs. 7173 billion, RTGS Rs. 87421 billion and mobile banking transactions were valued at 169 billion.

**The enhanced transactions in 2015 as compared to previous year 2014 are an indicator of increased usage of e-banking services by consumers.**

### **Literature Review**

Chavan (2013) described the benefits and challenges of Internet banking in an emerging economy. It observed that online banking is now replacing the traditional banking practice. It showed that 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 the banks gain advantage over the competitors. It also discussed some challenges in an emerging economy. Haq& Khan (2013) analysed the challenges and opportunities in the Indian Banking sector. The study showed that only 28 per cent banking clients were using internet banking after evaluating the population characteristics. It observed that qualification in terms of education and income of the respondents were playing the role in the acceptance of online banking. The study suggested that it is the need of time that financial literacy of the users should be increased through various programs which should be run by banks to increase the awareness of internet banking. Gupta & Mishra (2012) examined the new emerging trends of E-banking in Indian banking industry. The study found that there are many challenges faced by banks in E-banking and there are many opportunities

available with the banks. It concluded that banking sector will need to master a new business model by building management and customer services. Srivastava (2007) analysed the customer's perception on usage of internet banking. It also focused on what are the drivers that drive consumers, how consumers have accepted internet banking and how to improve the usage rate. The study revealed inhibitory factors like trust, gender, education, culture, religion, security, price can have minimal effect on consumer mind set towards internet banking.

### **Objectives of the Study**

- 1) To study and analyse the progress made by Indian banking sector towards adoption of e-banking services.
- 2) To study the advantages and limitations in using e-banking services.
- 3) To make recommendations as to how to improve e-banking usage.

### **Research Methodology**

The study is based entirely on secondary data and is analytical in nature. Data has been extracted from RBI and respective websites of banks. For the purpose of analysis, simple growth rate, percentages and averages are used.

### **Advantages of E-banking**

E-banking facilitates customers to avail banking services from anywhere anytime as per their convenience through electronic channels. It is beneficial both to the consumers as well as banks. In the view of current demonetisation driven by Government, e-banking has gained more relevance.

#### **To the banks:**

- a) ***Lower costs and increased profitability:*** Usage of e-banking as compared to branch banking helps to increase profitability. Investment in e-banking increases the banks' profit margins as it helps in reducing costs. E-banking has quite low cost per transaction as compared to the human teller banking. Banks also earn certain amount of commission/interest on products and services rendered through electronic means thereby enhancing their earnings.

- b) ***Paper less based banking system:*** In order to sustain in the tough, globalized and highly competitive environment, banks are nowhere behind in using Information Technology. Banks have altered their services from being a paper based banking solution providers to the latest of technologies like Internet banking, mobile banking, NEFT transactions and so on.
- c) ***Reduced requirement of staff:*** E-banking, as a medium of service channel, provides self service channel to the customers which helps them to cut their workforce to a certain extent. Many research articles have proved that e-banking has led to reduction in operating and administrative costs for banks.
- d) ***Geographical reach:*** Through e-banking mechanism, banks can even reach at places/areas where there is no branch, thereby expanding its geographical reach and customer base.
- e) ***Easy access to services:*** E-banking provides an easy access to consumers by offering easy and convenient access anywhere anytime. Several research studies have proved positive association of increase in customer satisfaction as a result of adoption of e-banking services.
- f) ***Reduced investment on development of infrastructure:*** Banks are no longer required to spend substantial amount of money upon developing their infrastructure/ maintaining buildings as traditional system of branch banking is being replaced by e-banking.

**To the consumers:**

- a) ***Saving of time:*** One of the major benefits of e-banking is saving of time, accuracy and fast speed/efficiency with which the transactions are processed and consequently enhance the performance of banks. There is no longer requirement to stand in queues at a bank branch.
- b) ***Increased accessibility:*** Customers get the banking services more speedily and consistently than ever before, thus increasing the accessibility and customer base.
- c) ***24\*7 services:*** With the advent of technological upgradations, banking is now available 24\*7. Customers can perform their tasks from anywhere and at anytime, even when the bank is closed or on holidays.

- d) ***Ease and Convenience:*** Transacting via internet/mobile banking system have become much simpler on internet. It allows customers to avail banking services without physically visiting the branch. They can keep an eye on their transactions, request cheque book, updating information and opening RD/FD accounts from anywhere they feel convenient.
- e) ***Saves time and money:***As customers are not required to visit bank branch if they are transacting online, it saves a lot of time, effort and cost.

A major driving force behind the popularity/increased acceptance of e-banking all over the country is its cost effective mode of delivery of products and services in comparison to the existing channels. However, along with the benefits that it has brought to the consumers and bankers, it has also exposed them to various risks.

- a) **Operational risk:** Also referred to as transactional risk. It occurs due to inaccurate processing of transactions, weaknesses in design, unauthorized access to bank's systems or human factors like hacking, fraudulent activity of employees, negligence by customers and do on.
- b) **Security risk:** Any breach in security can result in financial loss to the bank. "Data residing in web servers or even banks' internal systems are susceptible to corruption if not properly isolated through firewalls from Internet. Unless specifically protected, all data / information transfer over the Internet can be monitored or read by unauthorized persons." (Source: RBI). Similarly, hackers operating via net can access, retrieve and thus use the customer's confidential information like account number, passwords, card numbers etc.
- c) **Money Laundering risk:** Money laundering is the process of conversion of criminal proceeds into a legal form of money so as to appear the source of money as 'legitimate.' E-banking transactions, as we all know, are conducted remotely, so banks may find it to track and prevent undesirable transactions.
- d) **Reputational Risk:**It is the risk of getting negative opinion of the public/losing public confidence which may result in financial loss to the banks. The main reason for this risk is deficiencies in the working of the system, not working as per customers' expectations, major problems with communication networks, security breach and so on.

- e) **Legal Risk:** Legal risk arises from violation/non compliance with rules, regulations and laws. If the customer is not made aware of his rights and obligations in using e-banking services, he may not take precautions in availing them which might lead to unwanted suits/cases against the bank.

**These risks must be carefully managed by the banks/banking system so that this innovative channel of delivery reaches out to maximum customers without much hassles and security threats.**

### **Challenges in E-banking**

- 1) **People's trust:** Most consumers prefer conventional/branch banking for most of their transactions because of their lack of trust on online system. People perceive that online system of banking is risky/unsafe because of security concerns. Sometimes, amount is deducted from their account while initiating transactions without actual processing of that transaction.
- 2) **Knowledge about E-banking:** Most of the customers are unaware as to how to use e-banking system of carrying out transactions. In the Indian context, awareness among consumers is pretty low. They do not have proper knowledge about the use, benefits and facilities offered by e-banking system.
- 3) **Safety and security of transactions:** E-banking transactions may not be safe and secure everytime. There is a risk of loss of data or hacking due to technical defaults.
- 4) **Lack of adequate infrastructure for installation of e-delivery channels:** Some of the banks lack the adequate infrastructure required for the set up of e-delivery channels. Developing the right technology, using it optimally and leveraging it to the best is essential to ensure cost effective delivery standards.
- 5) **Customer awareness and satisfaction:** In today's competitive world, satisfying customers is a major challenge for services sector, especially banking, because banks offer undifferentiated products and services. Competition in the sector brings various challenges before the banks such as positioning of their products, targeting customer's requirements, cross selling, minimize their NPAs and manage their assets carefully.

## **Opportunities related to E-banking**

Opportunities in e-banking are immense but the only need is to explore them effectively. Banking services have now moved from a product centric view to customer centric view. In view of this, it is essential to understand customers' requirements and accordingly design their services. Bankers should instil greater confidence among users of e-banking services and promote e-banking culture across the country. A good thing about e-banking system is that banks use SMS and e-mail alerts the moment customer logs into his account. Few other recommendations that can help e-banking penetrate among the masses are:

- 1) Government to provide easy finance at concessional rates to the banks so that they can develop their infrastructure in order to meet e-banking requirements.
- 2) Regular trainings to employees so as to enhance their technical/inter-personal skills so that they are well versed with technological innovations and that will further help them train their customers.
- 3) Installation of both on-site as well as off-site ATMs at different places to as to have maximum geographical reach.
- 4) Spreading of awareness among customers with respect to usage of e-banking services through advertisements/demo/seminars/workshops. Banks should issue instructions to the customers to manage their accounts through virtual keyboards which cannot be identified by hackers.
- 5) Regular customer feedbacks will help bank managers to improve upon their quality of services.
- 6) Computer literacy is a must to enable customers to use e-banking services. Internet users are increasing day by day and banks can encash this opportunity to attract more and more users to adopt/use e-banking services.
- 7) Bankers must ensure safety and security of the customers' transactions by enhancing security features, which will ultimately boost up customer confidence in using e-services. Customers should change their online passwords more often and should never use e-banking facilities on an unsecured wifi network.



- 8) Exploring rural untapped market in India is also a major opportunity with the banking sector to expand their reach and customer base.

### **Managerial Implications:**

The discussion in the paper about the benefits, risks and challenges will help bank managers to consider the areas where they are lacking and how to devise effective strategies to tap the untapped.

Banks must act as an advisor in helping customers use e-banking services. Young customers are generally less risk averse than elder ones, so banks must target more of youngsters for e-banking services. Tapping of those segments that do not use e-banking facilities must be done. Banks must assure customers that the information provided by them online would not in any ways be misused and its privacy will be maintained. Online systems must be pre-tested before implementation and back-up system to be in place to meet contingencies. Banking researchers will need to focus on customer's needs, attitudes and behavior in the adoption of e-banking. Regular feedback/monitoring system should be in place to know the areas where service quality can be enhanced.

### **Conclusion:**

The study aims to identify the benefits, risks, opportunities and suggestions to overcome the challenges associated with e-banking services. If more and more customers will switch to e-banking as a medium of carrying out their banking transactions, banks will experience lower cost of operations and customers will get these services 24\*7 which they can avail as per their time and convenience. The use of e-banking is still confined to a limited customer segments which is again an opportunity for banks to tap upon. Banks must develop suitable strategies to leverage the opportunities/benefits provided by e-banking. Considering the challenges and risk related to e-banking, the Reserve Bank of India and Government is initiating efforts to make e-banking more safe, secure and reliable for customers.

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