

How Necessary the E-banking is? : An Overview

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Abstract: Cyber cafes and kiosks springing up in different cities access to the Net is going to be easy. Internet banking (also referred as e banking) is the latest in this series of technological wonders in the recent past involving use of Internet for delivery of banking products & services. Even the Morgan Stanley Dean Witter Internet research emphasized that Web is more important for retail financial services than for many other industries. Internet banking is changing the banking industry and is having the major effects on banking relationships. Banking is now no longer confined to the branches where one has to approach the branch in person, to withdraw cash or deposit a cheque or request a statement of accounts. In true Internet banking, any inquiry or transaction is processed online without any reference to the branch (anywhere banking) at any time. Providing Internet banking is increasingly becoming a "need to have" than a "nice to have" service. The net banking, thus, now is more of a norm rather than an exception in many developed countries due to the fact that it is the cheapest way of providing banking services.

Keywords: Net banking, Impact of E-banking

Introduction

Electronic banking is one of the truly widespread avatars of E-commerce the world over. Various authors define E-Banking differently but the most definition depicting the meaning and features of E-Banking are as follows:

1. Banking is a combination of two, Electronic technology and Banking.
2. Electronic Banking is a process by which a customer performs banking Transactions electronically without visiting a brick-and-mortar institutions.
3. E-Banking denotes the provision of banking and related service through Extensive use of information technology without direct recourse

to the bank by the customer.

Financial institution management must choose the level of e-banking services based on customer needs and the institution's risk assessment. Institutions need to reach this decision and the factors considered are customer demand, competition, expertise, implementation expense, maintenance costs and capital support. An institution may choose not to provide e-banking services or to limit e-banking services to an informational website only. Banks or financial institutions must do periodic review to ensure that everything is appropriate for the institution's overall business strategy.

Institution's growth depends on the growth in market share, relationship with the customers, cost reduction or new revenue generation. If the bank or a financial institution thinks that a transactional website is appropriate, the next decision is the range the electronic products and services. A bank or a financial institution to have a good market share and to grow must ensure that the e-banking facility to be offered to the customers and for which it is essential to do cost-benefit analysis, risk assessment, monitoring activities, establish clear accountability for the development of policies, regular internal and external audit and managing outsourcing relationships.

Evolution of E-banking

The story of technology in banking started with the use of punched card machines like Accounting Machines or Ledger Posting Machines. The use of technology, at that time, was limited to keeping books of the bank. It further developed with the birth of online real time system and vast improvement in telecommunications during late 1970's and 1980's. It resulted in a revolution in the field of banking with "convenience banking" as a buzzword. Through Convenience banking, the bank

is carried to the doorstep of the customer.

The 1990's saw the birth of distributed computing technologies and Relational Data Base Management System. The banking industry was simply waiting for these technologies. Now with distribution technologies, one could configure dedicated machines called front-end machines for customer service and risk control while communication in the batch mode without hampering the response time on the front-end machine.

Intense competition has forced banks to rethink the way they operated their business. They had to reinvent and improve their products and services to make them more beneficial and cost effective. Technology in the form of E-banking has made it possible to find alternate banking practices at lower costs.

More and more people are using electronic banking products and services because large section of the banks future customer base will be made up of computer literate customer, the banks must be able to offer these customer products and services.

Types of Internet Banking or E-banking

Understanding the various types of Internet banking will help examiners assess the risks involved. Currently, the following three basic kinds of Internet banking are being employed in the marketplace.

- **Informational:** This is the basic level of Internet banking. Typically, the bank has marketing information about the bank's products and services on a stand-alone server. The risk is relatively low, as informational systems typically have no path between the server and the bank's internal network. This level of Internet banking can be provided by the banks or outsourced. While the risk to a bank is relatively low, the server or web site may be vulnerable to alteration. Appropriate controls therefore must be in place to prevent unauthorized alterations to the bank's server or web site.
- **Communicative:** This type of Internet banking systems and the customer. The interaction between the bank's system and the customer.

The interaction may be limited to electronic mail, account enquiry, loan applications, or static file updates (name and address change). Because these servers may have a path to the bank's internal networks, the risk is higher with this configuration than with informational systems. Appropriate controls need to be in the place to prevent, monitor, and alert management of any unauthorized attempt to access the bank's internal networks and computer systems. Virus controls also become much more critical in this environment.

- **Transactional:** This level of Internet banking allows customers to execute transactions. Since a path typically exists between the server and the bank or outsourcer's internal network, this is the highest risk architecture and must have the strongest controls. Customer transactions can include accessing accounts, paying bills, transferring funds etc.

Advantages of Internet Banking

- **Convenience:** Unlike your corner bank, online banking sites never close they're available 24 hours a day, seven days a week, and they're only a mouse click away.
- **Ubiquity:** If you're out of state or even out of the country when a money problem arises, you can log on instantly to your online bank and take care of business, 24/7.
- **Transaction Speed:** Online bank sites generally execute and confirm transactions at or quicker than ATM processing speeds.
- **Efficiency:** You can access and manage all of your bank accounts, including IRA's, CDs, even securities, from one secure site.
- **Effectiveness:** Many online banking sites now offer sophisticated tools, including account aggregation, stock quotes, rate alert and portfolio managing program to help you manage all of your assets more effectively. Most are also compatible with money managing programs such as quicken and Microsoft money.

Disadvantages of Internet Banking

- **Start-up May Take Time:** In order to register for your bank's online program, you will probably have to provide ID and sign a form at a bank branch. If you and your spouse wish to view and

manage their assets together online, one of you may have to sign a durable power of attorney before the bank will display all of your holdings together.

- **Learning Curves:** Banking sites can be difficult to navigate at first. Plan to invest some time and/or read the tutorials in order to become comfortable in your virtual lobby.
- **Bank Site Changes:** Even the largest banks periodically upgrade their online programs, adding new features in unfamiliar places. In some cases, you may have to re-enter account information.

Impact of E-banking on Traditional Services

One of the issues currently being addressed is the impact of e-banking on traditional banking players. After all, if there are risks inherent in going into e-banking there are other risks in not doing so. It is too early to have a firm view on this yet. Even to practitioners the future of e-banking and its implications are unclear. It might be convenient nevertheless to outline briefly two views that are prevalent in the market. The view that the Internet is a revolution that will sweep away the old order holds much sway. Arguments in favor are as follows:

E-banking transactions are much cheaper than branch or even phone transactions. This could turn yesterday's competitive advantage - a large branch network - into a comparative disadvantage, allowing e-banks to undercut bricks-and-mortar banks. This is commonly known as the "beached dinosaur" theory.

E-banks are easy to set up so lots of new entrants will arrive. 'Old-world' systems, cultures and structures will not encumber these new entrants. Instead, they will be adaptable and responsive. E-banking gives consumers much more choice. Consumers will be less inclined to remain loyal.

E-banking will lead to an erosion of the 'endowment effect' currently enjoyed by the major UK banks. Deposits will go elsewhere with the consequence that these banks will have to fight to regain and retain their customer base. This will increase their cost of funds, possibly making their business less viable. Lost revenue may even result in these banks

taking more risks to breach the gap. Portal providers are likely to attract the most significant share of banking profits.

E-banking - World Wide

Since its inception, Internet banking has experienced strong and sustained growth. World Bank report on leapfrogging in e-finance pointed out that the three countries with impressive progress in information technology in this sense are Estonia, Republic of Korea and Brazil. Creation of the world's leading electronic banking systems has been done at a remarkably low cost compared to other world-class internet banks.

In the European Union, 60 million people, representing 18 per cent of the adult population, use online banking. In France, the number of online banking accounts is recording an annual growth rate of 75 per cent. However, Estonia is a country that has become a leader in Internet banking (which now reaches 18 per cent of the population), not only among Eastern European countries but in world rankings, through a combination of easy to use software, free-of-charge transactions and behavior changes resulting from the influence of the Nordic countries' IT culture on Estonia.

A sector in which Latin America seems to be performing better than in other industries is online retail banking. Growth in this area has been driven by traditional banks, which have used the online channel to generate customer loyalty and improve their operating margins. Two Brazilian banks, Bradesco and Banco do Brasil, have thus achieved more than 4 million online customers each.

The Internet is a global phenomenon and so is e-finance. Its deployment is not limited to developed countries, and indeed some developing countries - such as India and the Republic of Korea - are experiencing particularly strong growth in E-Banking. In Asia one of the most impressive records has been achieved by the Republic of Korea. The Republic of Korea is leading in online brokerage and in mobile banking. In South-East Asia Internet banking is also developing rapidly in Thailand, Malaysia, and Singapore and to a lesser extent, in the Philippines.

In Bangladesh there is a large gap between the computerization of foreign banks and that of local commercial banks and as regards the state of their intra- and inter-branch online networks. However, 75 per cent of local banks are planning to introduce E-Banking, which implies very dynamic improvements. Apart from North and South Africa the Sub Saharan Africa is the region that is seriously lagging behind in Internet banking, although it is giving to the rest of the world the good example of microfinance developments.

Suggestions

Internet banking would drive us into an age of creative destruction due to non-physical exchange, complete transparency giving rise to perfectly electronic market place and customer supremacy. The question to be asked right now is "What the Indian Banks should do". Whatever is the strategy chosen and options adopted, certain key parameters would determine the bank's success on web. For long-term success, a bank may follow:

- Adopting a web's mindset
- Catching on the first mover's advantage
- Recognizing the core competencies
- Ability to deal multiplicity with simplicity
- Senior Management initiative to transform the organization from inward to outward looking
- Aligning roles and value propositions with the customer segments
- Redesigning optimal channel portfolio
- Acquiring new capabilities through strategic alliances

The above can be implemented in four steps:

- Familiarizing the customer to new environment by demo version of software on bank's web site. This should contain tour through the features which are to be included. It will enable users to give suggestions for improvements, which can be incorporated in later versions wherever feasible.
- Second phase provides services such as account information and balances, statement of account, transaction tracking, mailbox, check book issue, stop payment, financial and customized information.
- The third phase may include additional services

such as fund transfers, DD issue, standing instructions, opening fixed deposits, intimation of loss of ATM cards.

- The last step should include advanced corporate banking services like third party payments, utility bill payments, establishment of L/Cs, Cash Management Services etc. Enhanced plan for the customers in future can include requests for demand drafts and pay orders and many more to bring in the ultimate in banking convenience.

Also if proper training should be given to customer by the bank employs to open an account will be beneficial secondly the website should be made friendlier from where the first time customers can directly make and access there accounts.

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.

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