



E-BANKING: PROBLEMS AND PROSPECTS

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Abstract

The present and future of any economy depends upon the success and development of banking. E-Banking is a generic term encompassing internet banking, telephone banking, mobile banking etc. In other words, it is a process of banking services and products through electronic channels such as telephone, internet, cell phone etc. The aim of this report is, not only to analyze the meaning of electronic banking and to present all the alternative providing banking service networks, but also to focus on the advantages and the risks that the growth of electronic banking has brought about.

Key Words: E-Banking, ATM, Internet Security, Information Technology.

Introduction

The fast advancing global information infrastructure (including information technology and computer networks such as the Internet and telecommunications systems) enable the development of electronic commerce at a global level. The nearly universal connectivity which the Internet offers has made it an invaluable business tool. These developments have created a new type of economy, which many call the 'digital economy'. This fast emerging economy is bringing with it rapidly changing technologies, increasing knowledge intensity in all areas of business, and creating virtual supply chains and new forms of businesses and service delivery channels such as e-banking. E-banking is the banking of new era. The term Internet Banking or E-Banking Internet both are used as supplement. Making banking products and other services available to wholesale and retail customers, through an electronic distribution channel is called e-banking. In other words E-Banking refers to the banking operations, which is done over World Wide Web. E-banking is the outcome of technological innovations and competition. In fact, banks have been using electronic and telecommunication networks for delivering a wide range of value added products and services. The devices have been telephone, personal computers including Automated Teller Machines (ATM). The delivery channels have been direct dial up connections, private and public networks. To this newer edition of e-banking are being added e.g. Internet banking and mobile banking. The use of ATM's lead to the concept of 'anywhere' and 'anytime' banking. Through the use of ATM cards, one can operate his bank account to withdraw money from any of bank's ATM installed or available at the nearest site. This had broken down the time and space barriers. The new banks are providing some of the services exclusively through ATM's.

Objectives of the Study

The main objective of the study is to analyze the meaning of electronic banking and to present all the alternative providing banking service networks and to focus on the advantages and the risks that the growth of electronic banking has brought about.

Research Methodology

The study was mainly conducted based on secondary sources of data by collecting the information from journals, periodicals etc.

Discussion

E Banking

E-banking refers to electronic banking. It is like e-business in banking industry. E-banking is also called as "Virtual Banking" or "Online Banking". E-banking is a result of the growing expectations of bank's customers. E-banking involves information technology based banking. Under this I.T system, the banking services are delivered by way of a Computer-Controlled System. This system does involve direct interface with the customers. The customers do not have to visit the bank's premises. Popular services covered under E-Banking. The popular services covered under E-banking include

- Automated Teller Machines
- Credit Cards
- Debit Cards
- Smart Cards
- Electronic Funds Transfer (EFT) System,
- Cheques Truncation Payment System
- Mobile Banking, Internet Banking
- Telephone Banking etc.



The Advantages of Internet Banking

Many banks have begun to offer customers the option of online-internet banking, a practice that has advantages for both all parties involved. The convenience of being able to access accounts at any time as well as the ability to perform transactions without visiting a local branch, draw many people to be involved. Some of these advantages of internet banking but are not limited to, include:

- **Customer's Convenience:** Direct banks are open for business anywhere there is an internet connection. They are also 24 hours a day, 365 days a year open while if internet service is not available, customer services is normally provided around the clock via telephone. Real-time account balances and information are available at the touch of a few buttons thus, making banking faster, easier and more efficient. In addition, updating and maintaining a direct account is easy since it takes only a few minutes to change the mailing address, order additional checks and be informed for market interest rates.
- **More Efficient Rates:** The lack of significant infrastructure and overhead costs allow direct banks to pay higher interest rates on savings and charge lower mortgage and loan rates. Some offer high-yield checking accounts, high yield certificate of deposits (CDs), and even no-penalty CDs for early withdrawal. In addition, some accounts can be opened with no minimum deposits and carry no minimum balance or service fees.
- **Services:** Direct banks typically have more robust websites that offer a comprehensive set of features that may not be found on the websites of traditional banks. These include functional budgeting and forecasting tools, financial planning capabilities, investment analysis tools, loan calculators and equity trading platforms. In addition, they offer free online bill payments, online tax forms and tax preparation.
- **Mobility:** Internet banking also includes mobile capabilities. New applications are continually being created to expand and improve this capability or smart-phones and other mobile devices.
- **Transfers:** Accounts can be automatically funded from a traditional bank account via electronic transfer. Most direct banks offer unlimited transfers at no cost, including those destined for outside financial institutions. They will also accept direct deposits and withdrawals that the customer authorizes such as payroll deposits and automatic bill payment.
- **Ease of Use:** Online accounts are easy to set up and require no more information than a traditional bank account. Many offer the option of inputting the customer's data online or downloading the forms and mailing them in. If the customer runs into a problem, he has the option of calling or e-mailing the bank directly.
- **Environment Friendly:** Internet banking is also environmentally friendly. Electronic transmissions require no paper, reduce vehicle traffic and are virtually pollution-free. They also eliminate the need for buildings and office equipment.

Challenges in e-banking

Based on 'best practices' in developed countries, United Nations Conference on Trade and Development (UNCTAD) report has identified four challenges that developing countries, in general, are expected to overcome to achieve the advantages that E-banking initiatives can bring about [UNCTAD]:

1. **The Ability to adopt Global Technology to Local Requirements:** An adequate level of infrastructure and human capacity building are required before developing countries can adopt the global technology for their local requirements. For example, the review of the migration plan of Society for Worldwide Interbank Financial Telecommunications (SWIFT) to the internet shows that to date full migration has not occurred in many developing countries due to the lack of adequate infrastructure, working capital, and required technical expertise. Broadly accepted e-payment systems are another such example. Many corporate and consumers in some developing countries either do not trust or do not have access to the necessary infrastructure to be able to process e-payments.
2. **The Ability to strengthen Public Support for e-Finance:** Historically, most e-finance initiatives in developing countries have been the result of cooperative efforts between the private and public sectors. For example, Singapore's successful Trade Net system was a government-sponsored project. If the public sector does not have the necessary means to implement the projects it is essential that cooperative efforts between public and private sectors,



along with the multilateral agencies like the World Bank, be developed to facilitate public support for e-finance related initiatives.

3. **The Ability to Create a Necessary Level of Regulatory and Institutional Frameworks:** The lack of regulatory frameworks, trust, security and privacy standards, high trade barriers, customer and investor protections impede progress in implementing e-banking initiatives on a larger scale in many developing countries.
4. **The Ability to Mainstream Small and Medium Scale Enterprises (SMEs) towards e-Banking:** The availability of and access to quality data and banking information is required for SMEs in developing countries to move towards e-banking. Similarly, on-line credit information will enhance SME's ability to secure financing.
5. **Implementation of Global Technology:** There is a need to have an adequate level of infrastructure and human capacity building before the developing countries can adopt global technology for their local requirements. In developing countries, many consumers either do not trust or do not access to the necessary infrastructure to be able to process e-payments.
6. **Strengthening the Public Support:** In developing countries, in the past, most e-finance initiatives have been the result of joint efforts between the private and public sectors. If the public sector does not have the necessary resources to implement the projects it is important that joint efforts between public and private sectors along with the multilateral agencies like the World Bank, be developed to enable public support for e-finance related initiatives
7. **Confidentiality, Integrity and Authentication:** These three are the very important features of the banking sector and were very successfully managed all over the world before the coming of internet. Communication across an open and thus insecure channel such as the internet might not be the best base for bank-client relations as trust might partially be lost.
8. **Customer Satisfaction:** In today's competitive world, satisfaction of customers is a major challenge for the banking sector because customers have alternative choices in various types of services provided by banks.
9. **Availability of Personnel Services:** In present times, banks are to provide several services like social banking with financial possibilities, selective up gradation, computerization and innovative mechanization, better customer services, effective managerial culture, internal supervision and control, adequate profitability, strong organization culture etc. Therefore, banks must be able to provide complete personnel service to the customers who come with expectations.
10. **Non- Performing Assets (NPA):** Nonperforming assets are another challenge to the banking sector. Vehicle loans and unsecured loans increases N.P.A. which terms 50% of banks retail portfolio was also hit due to upward movement in interest rates, restrictions on collection practices and soaring real estate prices. So that every bank have to take care about regular repayment of loans.
11. **Competition:** The nationalized banks and commercial banks have the competition from foreign and new private sector banks. Competition in banking sector brings various challenges before the banks such as product positioning, innovative ideas and channels, new market trends, cross selling ad at managerial and organizational part this system needs to be manage, assets and contain risk. Banks are restricting their administrative folio by converting manpower into machine power i.e. banks are decreasing manual powers and getting maximum work done through machine power. Skilled and specialized man power is to be utilized and result oriented targeted staff will be appointed.
12. **Handling Technology:** Developing or acquiring the right technology, deploying it optimally and then leveraging it to the maximum extent is essential to achieve and maintain high service and efficiency standards while remaining cost effective and delivering sustainable return to shareholders. Early adopters of technology acquire significant competitive advances Managing technology is therefore, a key challenge for the Indian banking sector.
13. **Other Challenges**
 - Coping with regulatory reforms
 - Development of skill of bank personnel
 - Customer awareness and satisfaction



- Corporate governance
- Changing needs of customers
- Keeping space with technology up gradation
- Lack of common technology standards for mobile banking
- Sustaining healthy bottom lines and increasing shareholders value
- Structural changes
- Man power planning

Future e-banking

Slower than expected adoption, and its failure to meet most of our early hopes has been the main source of threats, but the benefits it offers mean that this channel is growing in prominence every day and it is here to stay. Whether this growing prominence could mean the end of traditional banking channels such as branches remains to be seen. At present, it is helping to re-define the role of branch banking and moving branches away from transactional banking to become customer service centres. The future of e-banking seems secure due the ever increasing adoption and arrival of new technologies to address existing limitations. Major innovations are expected in the area of e-banking using mobile phones, in security provision and customer services. Technologies such as biometrics would, if they make expected progress, help resolve many existing problems. E-banking raises many complicated issues for banks and regulators alike. Much more work is need at both national and international level, to identify and remove any unnecessary barriers to e-banking. To benefit most from e-banking and related innovations, banks should,

- Develop a clear strategy and communicate it throughout the organization. It must be driven by the top management and should take into account the effects of e-banking
- Have an effective process for measuring performance of e-banking against the pre-determined criteria given in the strategic plans.

Opportunities

- **Untapped Rural Markets:** Contributing to 70% of the total population in India is a largely untapped market for banking sector. In all urban areas banking services entered but only few big villages have the banks entered. So that the banks must reach in remaining all villages because majority of Indian still living in rural areas.
- **Multiple Channels:** Banks can offer so many channels to access their banking and other services such as ATM, Local branches, Telephone/mobile banking, video banking etc. to increase the banking business.
- **Worthy Customer Service:** Worthy customer services are the best brand ambassador for any bank for growing its business. Every engagement with customer is an opportunity to develop a customer faith in the bank. While increasing competition customer services has become the backbone for judging the performance of banks.
- **Internet Banking:** It is clear that online finance will pickup and there will be increasing convergence in terms of product offerings banking services, share trading, insurance, loans, based on the data warehousing and data mining technologies. Anytime anywhere banking will become common and will have to upscale, such up scaling could include banks launching separate internet banking services apart from traditional banking services.
- **Retail Lending:** Recently banks have adopted customer segmentation which has helped in customizing their product folios well. Thus retail lending has become a focus area particularly in respect of financing of consumer durables, housing, automobiles etc., Retail lending has also helped in risks dispersal and in enhancing the earnings of banks with better recovery rates.
- **Indian Customers:** The growing Indian banking sector with its strong home country linkages, seek a unique combination of Indian ethnicity and global standards that offers a valuable nice opportunities for Indian banks. The biggest opportunity for the Indian banking sector today is the Indian costumers. Demographic shifts in terms of income level and cultural shifts in terms of life style aspirations are changing the profile of the Indian customer. This is and will be a key driver of economic growth going forward. The Indian customers now seek to fulfil his lifestyle aspirations at a younger age with an optimal combination of equity and debt to finance consumption and asset creation. The consumer represents a market for a wide range of products and services he need a mortgage to finance his house, an auto loan for his car, a credit card for on-going purchases, a bank account, a long term investment plan to his children"s higher education, pension plans for his retirement, a life insurance policy the possibilities are



endless and this consumer does not live just in India's top ten cities. He represents across cities, towns and villages i.e. in rural areas. Consumer goods companies are already tapping this potential it is for the banks to make the most of the opportunity to deliver solutions to this market

- **Other Opportunities**

1. To enter new business and new markets
2. To develop new ways of working
3. To improve efficiency
4. To deliver high level of customer services.

Conclusion

The e-banking revolution has fundamentally changed the business of banking by scaling borders and bringing about new opportunities. E-banking in India has also created many new challenges for bank management and regulatory authorities, which originate from increased potential for cross border transactions and lack of adequate cross border supervision. E-banking offers a higher level of convenience for managing one's finances even from one's bedroom. However, it continues to present challenges to the financial security and personal privacy. The rise of internet banks has increased the competition of the banking business.

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