

# A Comprehensive Analysis of E – Banking's Role and Impact

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**Abstract:** *The beginning of the E-Business age has been shivering the business environment and breaking out innovative and unconventional ways of doing business. One of the latest outcomes of this E-Business is internet banking or E-Banking. Banking sector is now reengineering it to adopt the change and to be in the race of globalization. Thus it has become imperative for the banking industry to better gauge the E-Banking phenomenon. The present study is an attempt to study the status of e-banking in India, advantages and risks associated, challenges ahead, opportunities and managerial implications arising out the study.*

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

## I. INTRODUCTION

Electronic banking in simple terms means, it does not involve any physical exchange of money, but it's all done electronically, from one account to another, using the Internet. Internet banking is just like normal banking, with one big exception. Electronic banking is understood that the business, products and services of traditional banks were previously distributed across new channels such the internet, telephone, wireless.

### **Electronic banking exists in two forms:**

**Online Banking** – This form on the internet environment, providing 100% service through network environment.

**The model combines commercial banking and electronic traditional services:** mean is the distribution of products and services old on the new distribution channels. Electronic Bank in Vietnam mainly developed under this model.

### **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 Internet Banking
- h) Telephone Banking

## 2.1 OBJECTIVE OF THE STUDY

- To study and analyse the progress made by Indian banking sector towards adoption of e-banking services.
- To study the benefits and limitations in using e-banking services.

### **III. 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.

#### **HISTORY OF E - BANKING**

While financial institutions took steps to implement e-banking services in the mid-1990s, many consumers were hesitant to conduct monetary transactions over the web. It took widespread adoption of electronic commerce, based on trailblazing companies such as America Online, Amazon.com and eBay, to make the idea of paying for items online widespread. By 2000, 80 percent of U.S. banks offered e-banking. Customer use grew slowly. At Bank of America, for example, it took 10 years to acquire 2 million e-banking customers. However, a significant cultural change took place after the Y2K scare ended. In 2001, Bank of America became the first bank to top 3 million online banking customers, more than 20 percent of its customer base. In comparison, larger national institutions, such as Citigroup claimed 2.2 million online relationships globally, while J.P. Morgan Chase estimated it had more than 750,000 online banking customers. Wells Fargo had 2.5 million online banking customers, including small businesses. Online customers proved more loyal and profitable than regular customers. In October 2001, Bank of America customers executed a record 3.1 million electronic bill payments, totaling more than \$1 billion. In 2009, a report by Gartner Group estimated that 47 percent of U.S. adults and 30 percent in the United Kingdom bank online.

#### **BENEFITS OF E – BANKING**

E - Banking has several advantages over traditional one which makes operating an account simple and convenient. It allows you to conduct various transactions using the bank's website and offers several advantages. Some of the advantages of E - banking are:

Online account is simple to open and easy to operate.

It is quite convenient as customers can easily pay their bills, can transfer funds between accounts, etc. Now customers do not have to stand in a queue to pay off their bills; also customers do not have to keep receipts of all the bills as they can now easily view their transactions.

It is available all the time, i.e. 24x7. Customers can perform their tasks from anywhere and at any time; even in night when the bank is closed or on holidays. The only thing customers need to have is an active internet connection.

It is fast and efficient. Funds get transferred from one account to the other very fast. Customers can also manage several accounts easily through E- banking.

Through E-banking, customers can keep an eye on their transactions and account balance all the time. This facility also keeps their accounts safe. This means that by the ease of monitoring their accounts at anytime, customers can get to know about any fraudulent activity or threat to their accounts before it can pose their accounts to severe damage.

It also acts as a great medium for the banks to endorse their products and services. The services include loans, investment options, and many others.

#### **LIMITATIONS OF E - BANKING**

Though there are many benefits of E-Banking, but nothing comes without limitations and everything has its pros and cons; same is with E-Banking. The limitations of E-Banking include the following:

Understanding the usage of E-banking might be difficult for a beginner at the first go. Though there are some sites which offer a demo on how to access online accounts, but not all banks offer this facility. So, a person who is new, might face some difficulty.

Customers cannot have access to E- banking if customers don't have an internet connection; thus without the availability of internet access, it may not be useful.

Security of transactions is a big issue. Customers account information might get **hacked** by unauthorized people over the internet.

**Password security** is a must. After receiving customer password, do change it and memorize it otherwise customer account may be misused by someone who gets to know customer password inadvertently.

Customers cannot use it, in case, the bank's server is down.

Another issue is that sometimes it becomes difficult to note whether customer transaction was successful or not. It may be due to the loss of net connectivity in between, or due to a slow connection, or the bank's server is down.

E- Banking has definitely made the life easy for users by providing online access to various banking services.

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 every time. 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 8 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 instill 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 eservices. Customers should change their online passwords more often and should never use e-banking facilities on an unsecured wi-fi 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 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.

#### **IV. 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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