

# Literature review about e banking in india finance essay

[Finance](#), [Banks](#)



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## **Abstract**

Due to increase in use and popularity of internet, E-banking has contributed in economic growth to a large extent. E-banking is a modern service provided by banks all over the world (Poon, 2008). E-banking came into existence from the use of Automatic Teller Machines (ATMs), telephone banking, direct bill payment, electronic fund transfer (EFT) and the revolutionary online banking (Poon, 2008). E-banking refers to banking through internet. Indian customers are slowly and steadily moving towards Internet Banking. E-banking services constitute ATM's, Electronic data interchange, MICR, Cash dispensers, Automated ledger posting system, Electronic clearing system, Tele banking, Anywhere Anytime Banking, Plastic money, E-cash, Smart cards etc and various processing systems such as Real time processing, Batch processing system, Desktop publishing etc. The

Research paper is intended on understanding and identifying the products of e-banking its trends, advantages and disadvantages as well of growth of e-banking in India. Researcher also intends on providing suggestions after analyzing the various other research papers, articles, journals etc. Firstly, emphasis is made to define the term e-banking followed by literature review and methodology planned.

## **Literature review**

### **Introduction**

E-banking in today's scenario is a very dynamic concept. It is a kind of self service technology (Dixit & Datta, 2010). Competition is the pushing force for the introduction of e-banking. (Ziqi Liao and Michael Tow Cheung, 2003) . E-banking is delivery of new and traditional banking products and services straight to customers using electronic, interactive communication channels using computers. At a fundamental point, E- banking means setting up of a web page by a bank to provide information about its products and services their features, advantages, disadvantages, prices , duration and other details. On the other hand, at an advanced level, it refers to providing facilities such as accessing accounts, transferring funds, and buying financial products or services online, Making payments et which is known as “ transactional” E- banking (Sathye, 1999). E-banking includes the systems that enable financial institutions, customers, individuals or businesses whether small or big or medium scale to access accounts, carry out transactions or obtain information on financial products and services through

a public or private network using Internet. (Vasanthakumari and Sheela rani, 2010)

The conception of electronic banking has been defined in a number of ways (Daniel, 1999). According to Karjaluoto (2002) electronic banking is a construct that consists of several channels of distribution. Daniel (1999) has defined electronic banking as providing banking information, products and services by a bank to customers using a number of different delivery platforms that can be used with different terminal devices such as a personal computer, mobile phone, desktop software, telephone or digital television. Electronic banking is also frequently known as internet banking or e-banking or PC banking or Home banking or Phone Banking or tele banking.

The first java based 24 hours electronic banking services were started by the first direct and Fujitsu cooperation. (Fujitsu, 2008). It is a new and innovative banking channel for Indian Banks. (Vasanthakumari and Sheela Rani, 2010). E-banking is both transactional as well informative medium.

(Vasanthakumari and Sheela Rani, 2010). E-banking involves customers using Internet to operate their bank accounts and obtain information without visiting a bank branch. (Vasanthakumari and Sheela rani, 2010). Internet banking involves providing information about bank products as well carrying online transactions such as transfer of funds, setting up direct debit, buying and selling of products etc. It involves computer networks and telecommunication networks. The basic aim of e-banking is to provide services to end consumer so that they can carry out banking transactions through PC or mobile. e-banking has attracted attention of banks, securities

trading firms, individual businesses, insurance companies, medium and large scale businesses etc. e-banking is growing because e-commerce has grown at a rapid rate. Internet banking can help in building sound strategies as its impact on cost savings, revenue and satisfaction of customer is tremendous (Gupta, 2008). e-banking influences business models of various banks, insurance companies, brokerage houses etc.

Internet banking has changed the banking industry as well as banking relationships in a positive way. E-banking provides banking products using internet including e-mails, modems and various networks other networks like RBINET, NICNET, BRISKNET, RBINET, BANKNET. E-banking services includes ATM's, Electronic data interchange, MICR, Cash dispensers, Automated ledger posting system, Electronic clearing system, Tele banking, Anywhere Anytime Banking, Plastic money, E-cash, Smart cards etc and various processing systems such as Real time processing, Batch processing system, Desktop publishing etc.

However it is very complicated for banks as well as customers to decide a best and appropriate approach to E-banking. (Dixit & Datta, 2010)

## **History Of E-banking In India**

Before E-banking In India came into existence the dealings between customers and banks was on one on one basis. The bank branch was involved in dealing with customers, payments, clearing, loan applications, opening accounts etc but the head office was involved in overall clearing,

size of branch, training, sanctioning of loans, keeping track of accounts of customers and it does not deal directly with customers.

In the last 5 decades banking in India has evolved through various phases. Due to Globalization and Liberalization a new environment was seen in banks in the whole of the world. Banks offered new services with latest technologies such as anywhere and anytime banking, Tele banking, Internet banking etc

The entry of foreign banks has pushed Indian banks to follow the path of latest technologies so as meet threat of competition and to retain their customer base. The growing competition and increased expectations has led to increase in awareness among banks on and role of internet banking. E-banking has revolutionized banking industry and is a product of innovation.

There is a prototype change in different parameters of transformation. Many factors both internal and external are responsible for this shift. Competition from other bank group and other global factors are forcing Indian banks to make these changes in their functioning. E-banking services have replaced traditional services. (Uppal, 2008). The process of E-banking started in 1980's when RBI had set up two committees in a sequence in order to step up the pace of automatic operations in the banking sector. A high-level committee was formed under the chairmanship of Dr. C. Rangarajan, then Governor of RBI, to plan out phased computerisation and mechanization in the banking industry over period five-years from 1985 to1989.

The main aim was to improve customer service and two models of branch automation were developed and were in practice. The second committee was Rangarajan committee which was formed during this five year time frame in 1988 to make a detailed perception plan for Computerization of banks and for extension of automation to other areas such as funds transfer, e-mail, BANKNET, SWIFT, ATMs, E -banking, etc.

The Government of India enacted the Information Technology Act, 2000 (generally known as IT Act, 2000), with effect from 17 October 2000 to provide legal status to electronic transactions and other electronic commerce. RBI had set up a ' Working Group' on e-banking to examine different aspects of e-banking. This Group mainly focused on three major areas of E - banking

- (1) Technology and security issues,
- (2) Legal issues and
- (3) Regulatory and supervisory issues.

RBI accepted the recommendations of the ' Working Group', and issued guidelines on ' internet banking in India' for implementation by banks in accordance with those recommendations. The ' Working Group' also issued a report on e-banking covering different aspects of E-banking.

(Vasanthakumari and Sheela Rani, 2010)

In 1980's internet developed rapidly. In early 1980's customers had access to their accounts through computers of banks. Later internet developed as a

network of communication and E-commerce came into existence. In May 1995, Wells Fargo which was the first bank in world to provide access to accounts over internet allowed it's customers to see their accounts online.

In India, ICICI was the first bank to begin internet banking in early 1997 with the name of " Infinity". Later ICICI bank terminated online banking services but 1996-1998 for Internet it was the adoption phase but its usage increased in 1999 because of lower online charges, increase in PC penetration and Technology friendly atmosphere. E-banking started with use of ATM's and later included telephone banking, electronic fund transfer, direct bill payments and online banking.

## **Present Status of E-banking In India**

E-banking is a banking business approach. Banks nowadays know that internet opens up new horizons and is a major factor in success of a bank and helps a bank to grow internationally. Therefore, a number of banks in India have either adopted E-banking or are in the process of adopting and using it. (Malhotra & Balwinder, 2009). E-banking provides right to use to worldwide connection from anywhere in world. Products presented by banks are offered all over internet due to which internet has become an important channel for delivery for banks. (Rahmath Safeena & Hema Date & Abdullah Kammani, 2011).

India being a developing country has weak infrastructure, low PC penetration, developing security protocols and consumer reluctance in rural sector. But many banks are offering e-banking services. In a study conducted



by Rao and Prathima (2003) it was revealed that India still has long way to go in online banking services in comparison to other countries. e-banking is becoming popular in India(Gupta, 1999; Dasgupta, 2002).

Internet is cheapest channel of delivery for bank and financial products as it reduces the branch networks and scales down the number of service staff. E-banking has also improved performance of banks. E-banking has also emerged as planned source for achieving higher efficiency, control of operations and reduction of cost by replacing paper based and labour exhaustive methods with automatic processes which thus lead to higher productivity and profitability and efficiency. (Malhotra & Balwinder, 2009)

E-banking has led to increase in speed of communication and transactions for clients. E-banking is offering wide range of services to its customers. Customers can communicate with banks and carry out transactions from anywhere in the world. Due to E-banking customers have changed their traditional way of banking to modernised banking i. e self service system by use of internet. (Curran and Meuter, 2007).

Fast and furious growth of technology has affected lives of millions of people from all over the world. There are a large number of factors which influence the consumer's attitude towards e-banking such as person's age, income, family size, inspiration and behaviour towards different banking technologies and attitude of every individual towards the new technology (Laforet and Li, 2005). But Many people do not use Internet banking in India due to security reasons, lack of knowledge and also due of user friendliness. Protection and

confidentiality are the most challenging problems faced by customers who aspire to operate in the e-commerce. Perceived risk was also one of the major factors affecting consumer adoption, as well as customer satisfaction, of E- banking services (Polatoglu and Ekin, 2001).

The Banks in India started E-banking initially with uncomplicated and simple functions such as getting information about rate of interests, checking account balances, clearing and calculating loan eligibility. Later on the services were extended to online bill payments, electronic transfer of funds between accounts and Management of Cash for businesses. Nowadays the banks are using E- banking technology to meet the increased competition. Some new services are also being offered by e-banking such as payment of taxes, railway ticket booking etc (Malhotra and Singh, 2010). But The banking sector in India was not willing to use e-commerce applications as according to them the transactions which are conducted electronically were open to hackers and viruses, which were not in their control. Also e-banking became unattractive because online services were a mixture of insecurities, technology investment costs and a lack of market-readiness. (Abdulwahed and Yaqoub, 2006) . But it has been observed that Internet banking has changed the banking industry as well as banking relationships in a positive way.

The plan of a bank to carry out business online depends on assets of the bank, years in operation, expenses ratio, deposits ratio, urban location, Non-fee income ratio. Internet banking may not have huge effect on the bottom line of most banks except for a few newly born banks. Internet Banking is

subject to various statues including Banking Regulations Act, 1949, the Reserve Bank

of India Act, 1934, and the Foreign Exchange Management Act, 1999, Information Technology Act, 2000, Indian Contract Act, 1872, the Negotiable Instruments Act, 1881, Indian Evidence Act, 1872, etc. The effect of E-banking on monetary and credit policies of Reserve Bank of India is a vital area of anxiety. E- banking in India is only at its primitive and is in the growing stage stage which is solely dominated and controlled by both the Indian private and foreign banks. E-banking in India is used only by a few consumer segments. There are a number of risks associated with E- banking which have to be modelled by banks by using sophisticated systems and extensive and proper use of technology. The legal framework should handle the issues associated with E- banking. E-banking phenomenon cannot be avoided by the Indian Banks, but to add a competitive advantage and to succeed, business models must be structured and arranged properly in the long run to suit to Indian conditions. (Gupta, 2008). But The factors which influence the adoption of Internet banking in India will probably be a matter of concern to both bankers and policy makers. ( Prakash and Malik, 2008)

There are a handful of companies specializing in developing e-banking software, security software and website designing and maintenance, there are few online financial service providers. Nowadays ICICI is also offering wide range of services to customers.

According to a number of authors E-banking is becoming popular in India (Gupta, 1999; Pegu, 2000; Dasgupta, 2002). However, it is still in its evolutionary stage. By the year 2006-2007, a large class and reasonable E - banking market will develop. Almost all the banks operating in India are having their websites. (Vasanthakumari and Sheela Rani, 2010).

In India almost 12% of the 38.5 million Internet users use E-banking and it is expected to increase to 16 million, according to survey by IMAI. (Prakash and Malik, 2008). In a survey carried out by Malhotra and Singh (2006) it was shown that 48% of the commercial banks in India offer e-banking.

Therefore for gaining complete control in present e-markets a purposeful and strategized approach is requisite.

## **Classification of E-banking In India**

The Reserve Bank Of India (RBI) constituted a functioning group on E-

Banking in India. This functioning group further divided the internet banking products in India into the following three types based on the levels of access granted:-

Information Only system

Electronic information transfer system

Fully electronic transactional system

More advanced transactions

### Information Only system

It provided general information such as rate of interests, location of a bank branch, products offered, their features, advantages and disadvantages, application forms were available for purpose of downloading. e-mails are used for communication purposes. A Customers and a banks application system do not interact. Customer identification is not done and there is no chance of any unauthorized person getting into a bank's production systems via Internet. (Geetika, Nandan & Upadhyay , 2008)

### Electronic information transfer system

It provides information about a customer such as account balances, address, details of transactions etc. Customers are identified by their passwords and customers are provided information from banks application system. (Geetika, Nandan & Upadhyay , 2008)

### Applying For New Banking Services

Very few banks provide the facility of making an application and enabling new

services using internet because the RBI does not allow opening of banks accounts online.(Malhotra & Balwinder , 2009) This requires high degree of safety and security. In this, the network server and the application systems are linked over secure communications. (Geetika , Nandan & Upadhyay , 2008)

## More advanced transactions

In this system various other services are provided such as insurance policies, Brokerage, investments, demat, Credit card payments, trading, shopping and various other services provided online. Private sector banks are more expected to offer insurance services and covers, brokerage, online trading online and shopping online. Many of the Internet banks have also started offering certain new services through E- banking such as tax payment, charity payment and railway ticket booking. Public sector banks have shown a tremendous performance in the providing the services such as tax payment and railway ticket booking online. (Malhotra & Balwinder , 2009)

## **Advantages and disadvantages of E-banking**

There are a number of drawbacks of e-banking such as it is time consuming, poor network availability, lack of knowledge among people, unsuitable location of ATM's, Lack of infrastructure, high setting up costs, chances of frauds and scams, customers feel e-banking is not secure etc.

Apart from above mentioned disadvantages there are a number of other disadvantages of Internet banking. Some of them are survival, accessibility, security, acceptance, infrastructure, perception, etc.

Many people do not use internet banking because they do not trust banking services through internet. They doubt that their money is not safe and secure while being processed through internet banking. Many cases of frauds in India have been reported.

Another disadvantage of E-banking is when a person has a query or question or faces a problem he/she cannot physically go to the bank and solve it but he/she has to call customer service department to solve it which might take a lot of time.

Also some people avoid using E-banking because they do not understand how to use to and what is the procedure of getting started.

Internet banking also poses a problem when the network is down and it might cause delay due to server problem when an important transaction is to be made.

Starting up of E-banking requires large amount of investment which includes advertising cost, setting up cost, purchasing of technology etc.

Many Internet banks don't have ATMs, due to which customers have to pay ATM fees. This costs them more.

Lack of literacy and education regarding how to use internet is another drawback of e-banking.

Sometimes unknowingly computer system is damaged

Also there are a number of benefits of e-banking to both bank as well as customer. For example- It's cheaper to make transactions over internet, it provides satisfaction to customers, it improves the image of the bank, and customers get facility to manage every aspect of their bank account, It makes the transactions paperless, banking services are available round the

clock helps customers to save time as they do not have to visit bank branch, customers can check costs of currency. Check stock market, check previous transaction history, transfer money, check which transactions have been cleared.

Joseph et al. (1999) studied the influence of Internet on the delivery of banking service. This study identified six dimensions of E- banking service quality i. e. convenience and accuracy, feedback and complaint management, efficiency, queue management, accessibility and customization. While on the other hand Jun and Cai (2001) identified to seventeen service quality dimensions of E- banking service quality which are reliability, responsiveness, competence, courtesy, credibility, access, communication, understanding the customer, collaboration and continuous improvement, content, accuracy, ease of use, timeliness, aesthetics, security and divers features.

## Services

Services are one of the primary benefits which a customer looks for while adopting a new channel.

The consumers consider the benefits and weigh them against the costs associated. The Internet offers a lot of benefits to consumers, like any time anywhere banking, updated information, convenience, faster transaction, etc.



## **Future of E-banking In India**

The large banks in India will find out new and better ways in providing their services. Also they will find out new ways to propose those services which will include use of new technologies. Wireless communication and mobile banking will increase at a very high rate due to which e-banking will become omnipresent. While E-banking will grow at a high rate the current generation of customers will still require face to face interaction with banks due because of feeling of satisfaction and security and some functions like cash withdrawals, checking lockers etc require physical contact with the bank. (Southard & Siau, 2004)

Keeping In India the benefits of E-banking such as increased efficiency of employees, accuracy etc it is seen that future of E-banking is very bright. The Banks which are fully computerized have gained majority of industrialists, service class, business class, less educated as well as highly educated customers. Most of the customers will favour E-banking because preferences of customers are changing with time and they are becoming more demanding and they will prefer a bank which will provide them quick service. In this era of globalisation only banks which are technologically advanced will survive.(Uppal & Chawla, 2009)

The future of e-banking depends heavily on the future development of technology. The one certainty is that it will continue to offer new delivery methods for banking services. (Southard & Siau, 2004)

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