

# Effects of online banking on commercial banks

[Finance](#), [Banking](#)



Banks and money go side by side; banking emerged when people had money and needed secure places to store it. The other reason for the emergence was that trading activities had grown and thus merchants needed loans and funds to carry out expeditions to far and wide places.

### History of Banking in United States

America needed banks immediately after independence as Congress needed to pay off the new nation's debt. Alexander Hamilton the first secretary of treasury suggested Congress create a Bank of the United States to help refinance all these debts in 1791. "The bank would be the only national bank, and it would hold the federal government's deposits and lend to the government and business" (THE FIRST BANK).

This bank served as the federal government fiscal agent, receiving its revenues, holding its deposits, and making payments. The shares of the First Bank were owned by domestic as well as foreign investors. In 1929 America faced depression, in which the financial structure (businesses), including banks, were badly damaged. Several banks went out of business and many businesses went bankrupt. The extent of the depression was so deep that by 1933 one of four Americans was unemployed. Soon the depression was over and banks were revived.

Even after the depression of 1929 and the deregulation of the 1970's the Central banking in the United States has progressed and modified over the last 200 years. There are many reasons for the popularity of banking. The most important reason is enhanced banking technology, which has given us

ATM and VISA , also known as plastic money. The other feature commonly used now is online banking.

### Online Banking

Online banking is based on the technology of the internet and the usage of personal computers. In earlier days banks used powerful computers to computerize millions of transactions carried out every day. Through internet branches of the same bank can develop networks, through which they could keep up to date with transaction and could provide services to customer of any branch.

The first bank which provided features of online banking was the Royal Bank of Scotland in 1997 in just ten years online banking has gained so much popularity, that almost all banks provide certain features of online banking if not all. A “ Recent survey revealed that 90% more small and medium-sized businesses use online banking now than five years ago” (guardian limited).

“ Online banking has several different names like e-banking, internet banking and even home banking. This technology emerged in the 80’s and since then has developed. Online banking is a system of banking in which customers can view their account details, pay bills, and transfer money by means of the Internet.” (Internet banking definition - Dictionary - MSN Encarta)

Certain banks are traditional and even provide features of online banking. While others are only online banks and have no physical presence. One of the examples of a bank which is developing from the traditional banking and

now trying to provide certain features of the online banking is Glacier Bank. It is planning to offer certain features in the online banking such as

- Transfer funds between accounts
- View current transactions, images of checks and deposit slips
- Access prior months bank statements
- Download account information
- Pay your bills
- Funds stay in your account until the payment clears the bank.
- Make loan payments

Thus, before converting to an online banking, we would examine some advantages and disadvantages of the online banking over the traditional banking for the customers as well as for the bank itself.

#### Advantages of Online Banking

E-banking is relatively a new advancement in the field of banking even then there are many business and customers who have switched from traditional to online banking. The reason being quite obvious, its advantages. Online banking has advantages which no one can ignore the most attracting advantage being the convenience and flexibility it provides.

Flexibility of time, an example of flexibility can be taken from the fact that now there are no time limitations you can pay bill at any time of the day or night no need to rush at the bank to avoid due date, of the bill. Then there is convenience an example of which can be that there is no need to wait in queues and no wasting of time in traffic everything is a just a click away.

Internet has globalized this world and in the same online banking is globalize. Difference in cities or countries even continent does not effect e-banking if u have any kind of money crises you can log on from any where in the world and can solve your problem in minutes. Transaction is very fast and effective; many online banking sites now offer sophisticated tools to help you manage all your assets more effectively. A simple example of this can be taken from the simple accounting software - some online banks provide to simplify record keeping.

Another advantage of online banking is that less paper work has to be done and once u have entered information, it doesn't need to be re-entered for similar consequent checks, and future payments can be programmed to occur automatically. Another advantage can be that online banking is cheaper than traditional banking as online banks don't have to pay for real estate.

#### Disadvantages of Online Banking

With advantages, online banking has many disadvantages which created hindrance in the way of online banking - one of them is security. The most important question in a customer's mind is security. The customer can never be sure if an action he requested has occurred or not and as paper is not used the chances of a valid prove with banks stamp on it is not available. Then there is hacking, if your password is hacked you can loose all your bank balance.

There are other minor problems which have created problems for online banking, but these problems can easily be resolved. Sometime to open an

account or transfer from commercial to online banking can be very time consuming and inconvenient. This is a very temporary problem. The other problem is the time to learn how to move around online banks, some customers might get discouraged if they don't get a hang of how to operate in online banks.

Then there is internet connection if the internet connection is very slow transaction can take a lot of time. If the banks change their website address without notice for updating it can create confusion and can lead customers in the wrong direction. " Another drawback can be that some banks offer online banking in a limited area only. In addition, when an account holder pays online, he/she may have to put in a check request as much as two weeks before the payment is due to that the person has lost up to two weeks of interest on that payment."

(Online banking Definition)

" Online-only banks have a few additional drawbacks an account holder has to mail in deposits (other than direct deposits), and some services that traditional banks offer are difficult or impossible for online-only banks to offer, such as traveler's checks and cashier's checks" (investor words).

Even though there are many disadvantages in online banking but they are all minor issues which are either temporary or easily resolvable. Thus online banking is getting very popular with time and it is expected that in near future the concept of a physical bank would decrease drastically. With advantages and disadvantages of online banking another subject which is important is that how online banking has affected commercial banks.

Effects of Online Banking on Commercial Banks

The biggest effect of any kind of automation is unemployment. With the increase in usage of online banks the number of commercial banks is decreasing and thus people who were working in banks are getting redundant. The other direct effect on commercial banks is that as banks are getting virtual there is no need for a physical bank. The idea of a virtual bank makes banks cheaper and easily accessible. Now branches of a bank are not needed in every town thus the cost of managing offices has ended, no electricity builds any maintenance expenditures and no money wasted on stationery. Thus the effect of online banks on commercial banks is that, as online banking is increasing commercial banking is decreasing.

In commercial banking, the customer's account is managed or recorded by the employees with the emergence of online banking this trend has changed; now the customer himself manages his accounts. Another impact of online banking on traditional banking is that as banks are getting online face to face contact has reduced.

Due to which a new user does not get the proper guidance and awareness of the facilities provided by the bank. In order to omit this obstruction a commercial bank has developed a new department. The department of telephone operators who are available 24 hours a-day new users as well as old one, can contact these operators at any time to get opinion about a desired subject

ATM cards or plastic money is a kind of online banking now people don't stand in queues in order to transact money. People can transact money

through any ATM machine which can be found just round the corner of every road. Commercial banks who earned money previously from customers now earn money from customers as well as through owners of shops. Now most of the shopkeepers have machines with the help of it u can pay your bills through cards. Commercial banks charge a certain percentage on your bill amount and with every transaction the bank directly gets the extra amount charged. Thus the ways of earning have changed with the help of online banking.

Commercial banking had the facility to cater people of an area but with online banking the commercial banks are responsible to cater people all around the globe. For example a person living in Canada is visiting London for business and a cherub has bounced he can contact London branch for assistance. Thus it can be said that commercial banks have more clients to deal with then they ever had to before.

Job structure have even changed due to commercial banking previously the soleresponsibilityof bankers was maintaining account, recording transactions or transferring money from one branch to another. Now online banking can easily deal with such features therefore the responsibility of bankers have converted from accounting to convincing. Employees are responsible to convince their customers to take car loan through credit loans, insurances and many other features. Thus salaries are based on how well communicate and convince rather then how good your math, accounts is.

Online banking has changed commercial banking to an extend, the only feature that an online bank is not been able to overcome is the satisfaction that face to facecommunicationgives.



## Conclusion

Check Free Analytic Research Services which discovered that 56% of the U. S. online households are paying at least one bill online, up from 52% in June 2004. These figures and advantages and disadvantages of the online banking suggest that it is not late to introduce the online banking by Glacier Bank. It has been evident that that the online bill payment and usage of other feature of the online banking are becoming more important for consumers.

Thus, according to my analysis, I would recommend Glacier Bank to start its online services as soon as possible. As advantages of the online banking are far more prominent than disadvantages, it is also observed that the online banking is becoming more and more popular to increase their customers and profits. Glacier bank should start the online feature. If not completely, but it should provide partial features in order to increase the business.

Technology is progressing at a remarkable speed many people have tried to slow its pace or completely terminate it but no one has managed to achieve it. Thus technology is advancing in every field and online banking is just a feature of it which is developing beyond imagination. Gone are the days when people used to visit banks frequently for transactions or other related activities. Computers or lets say internet has taken place of huge bank buildings

Online banking is getting popular with time “ forecasts show that the number of households that receive bills electronically as well as pay them online will increase to more than 40 million by the end of 2005 from less than 3 million

in Forecasts 2001" (Erdener Kaynak). The static's suggest that with a small p of time online banking will be the norm of the day it would became vital for business and routine transaction.

Online banking has no major disadvantages. It is predicted that the online banking would have such an impact on commercial banks that commercial banks would not only loose their importance but without its implementation they would thrown out from the market.

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