

E-BANKING SERVICES IN INDIA: CHALLENGES AND OPPORTUNITIES

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Abstract

E-banking, also known as online banking or virtual banking or internet banking is a system that enables banking transactions like transfer of funds, payment of loans and EMIs, deposit, and withdrawal of cash virtually with the help of the internet. E-banking plays a vital role in the present banking functionality. Electronic banking is inferred to be safe and secured, compared to physical banking. It ensures qualitative banking operations compared to traditional banking. E-banking in India is still in the early stages of growth and development. Competition and changes in technology have changed the face of the banking sector.

The purpose of the study is to emphasize the concept of e-banking. The research method of this study used the secondary data listed in different databases of books, research papers, and related articles of e-banking available on the Internet. The present study has been undertaken to describe the present status of e-banking in India and examine the challenges & opportunities of e-banking. With the help of e-banking, the banking sector is gaining customer satisfaction and loyalty. Banks should provide their customers with convenience, meaning offering service through several distributions channels and the availability of online services becomes easier for the customer.

Keywords: - E-banking, internet, electronic payment, challenges, opportunities.

1. INTRODUCTION

Banking today has become easier and it has led to a secure way for people to keep their hard-earned money in their bank accounts. Technology has reduced everything to a click of a button and people can transfer money from one account to another account even without standing in long queues for hours. There are numerous of options available to people ranging from debit cards, credit cards, e-wallets, internet banking, and mobile banking and so on which have replaced the traditional methods of transactions. Earlier the payment through electronic mode was restricted to making huge and lump sum payments for large value transactions and cheques were the main instruments of transactions for a long time before technical innovations took place. Now even petty payments become easier through e-banking making it more convenient for users to settle their payments. The adoption of e-banking services by customers enables banks to get returns on their investment and provide them with a competitive environment.

2. Definition and concept of E-banking:

Often E-banking is defined as web-based banking (Hertzum et al., 2004).

According to UNCTAD, (2002) stated that deployment of retail or wholesale banking services over the internet is often referred to as E-banking which involves individual and corporate clients, and includes bank transfers, payments and settlements, documentary collections and credits, corporate and household lending, card businesses, and some others.

In the late 1990s, many banks originate to view web-based banking as a strategic obligatory. As a way of maintaining their customers and building loyalty banks looked for web-based banking. Electronic banking is an umbrella term for the process by which a customer may perform banking transactions electronically without visiting a brick-and-mortar institution Electronic banking services have actually started to develop only since 1995, when the Maryland Presidential Bank, an American bank, allowed bank accounts to be opened online Internet banking (e-banking) facilitates customers to avail various small and large value banking products and services through electronic channels Internet banking comprises banking activities or services which can be available by the customers at any point of time and from any place with their convenience, it is also called PC banking, online banking, cyber banking, virtual banking, etc.

3. REVIEW OF LITERATURE

An attempt has been made to put forward a brief review of literature based on a few of the related studies undertaken worldwide in the area of e-banking as follows.

Ansari, Seharish J. & Khan, Nisar A. (2017) have tried to analyze the progress and challenges of e-banking in India from 2011 to 2016, also throwing some light on the status of retail electronic payments in the post-demonetization period. Their study shows that the number of internet users has increased from 2,231,957,359 to 3,424,971,237 in 2016, which is around 53.45% increase during the period. Also, the penetration of internet as a ratio of population has increased from 31.8 % in 2011 to 46.1% in 2016. There has been a continuous increase in the number of debit card and credit card users. The number of transactions through credit card increased at a CAGR of 22.25% whereas the number of transactions through debit cards increased at a CAGR of 12.33% during the period of study. Post demonetisation i.e., from November 2016 to May 2017, RTGS (real time gross settlement), NEFT (national electronic fund transfer) and UPI (unified payments interface) increased at a CAGR of 4.72%, 1.95% and 60.50% respectively. Mobile banking declined continuously. Their study also mentions the challenge of increasing number of internet users and the requirement of banks to be able to meet out the expectations of these tech savvy people.

Chauhan, V. & Chaudhary, V. (2015) focused on understanding the concept of internet banking and its benefits from the perspective of consumers as well as banks and the current scenario of internet banking. The growth percentage of mobile banking from 2010 to 2014 had been the highest that is 495.64% while credit cards had seen the least growth from

the same period at 11.07%. NEFT and RTGS transactions were at 602.69% and 89.29% respectively. They concluded that most of the banks have implemented e-banking facilities that are beneficial both for the consumers and the banks but then there are issues of safety, security, and reliability which the banks must adhere to.

Manikyam, Ratna (2014) analyzed the impact of liberalization, privatization, and globalization on Indian banks and the resultant opportunities and challenges. The study revealed that the biggest challenges for banking challenge for the mass and companies and those Indian banks should come up with differentiated products to stand at par with foreign banks. Further, the study also emphasized building knowledge-driven organizations for surviving the competition from the banks globally. The above studies done on e-banking have focused on its progress and its challenges it. The concern is more on the technological aspects of banking. They have not focused on the digitalization of the banking sector and the various components of e-banking and how the economy will move towards being a cashless economy, given the present state of internet penetration and different schemes launched by the Govt. of India and RBI.

Haq & Khan (2013) analyzed the challenges and opportunities in the Indian Banking sector. The study showed that only 28 percent of banking clients were using internet banking after evaluating the population characteristics. It found that there was no significant relationship in-between age and the use of cyber banking. It also depicted that there is no relationship between gender and the adoption of internet banking. It observed that qualifications in terms of education and income of the respondents were playing the role in the acceptance of online banking. The study suggested that it is the need of time that financial literacy of the users should be increased through various programs which should be run by banks to increase the awareness of internet banking.

4. RESEARCH METHODOLOGY

This research conducted research using second-hand data listed in different databases of books, research papers, and related articles on the Internet on e-banking.

5. OBJECTIVES OF THE STUDY

- To know the concepts of e-banking.
- To study the current status of financial innovations in the Indian banking sector.
- To study the challenges faced in e-banking.
- To study the various opportunities available in e-banking.

6. PRESENT STATUS OF E-BANKING IN INDIA

E-banking has become an integral part of the banking system in India. Before the 90's, the traditional model of banking i.e. branch-based banking was prevalent, but after that non-branch banking services were started. The credit of launching internet banking in India goes to firstly ICICI Bank. After that Citibank and HDFC Bank followed with internet banking services in 1999. The Government of India enacted the IT Act, 2000 with effect from October 17, 2000, which provided legal recognition to electronic transactions and other means of e-commerce. The Reserve Bank is monitoring and reviewing the legal and other requirements of e-banking on a continuous basis to ensure that e-banking would develop on sound lines and e-banking related challenges would not pose a threat to financial stability. According to a report of RBI in Jan. 2016, there are 196079 ATMs and 1337310 points of sale devices in India. To cope with the pressure of growing competition, Indian commercial banks have adopted several initiatives and e-banking is one of them. The competition has been especially tough for the public sector banks, as the newly established private sector and foreign banks are leaders in the adoption of e-banking. Indian banks offer to their customers the following e-banking products and services viz. Automated Teller Machines (ATMs), Internet Banking, Mobile Banking, Phone Banking, Tele banking, Electronic Clearing Services, Electronic Clearing Cards, Smart Cards, Door Step Banking, and Electronic Fund Transfer. According to the RBI in its Annual Report 2020-21 stated that the payment systems recorded a robust growth of 26.2% in terms of volume on top of the expansion of 44.2% in the previous year.

Here some of the major key facts are as follows:

- ❖ Private sector banks represent about 67% of the POS terminal market while public sector banks account for 27%. Payments banks accounted for 5% market share, and foreign banks represented 1%.
- ❖ The total number of cards in circulation stood at 960.25 million as of March 2021. Out of which, there were 898.20 million debit cards and 62.05 million credit cards, up by 8% and 7% YOY respectively.
- ❖ There were 2.20 billion prepaid payment instruments in the country. Out of which, 189.93 million comprised of prepaid cards and over 2.01 billion comprised of mobile wallets.
- ❖ The number of transactions through mobile wallets in Q1 2021 was 1.13 billion and the value was INR 411.75 billion. This includes the purchase of goods and services and fund transfer through wallets. Transactions through wallets are growing steadily.
- ❖ Consumers made 8.32 billion mobile-based payments whereas Net Banking / Internet browser-based transactions were over 937.60 million. In terms of value, INR 31.98 trillion was transacted through mobile while INR 131.34 trillion was transacted through the internet.
- ❖ Out of total UPI volume, 55% of transactions were P2P (Person-to-Person) while 45% were P2M (Person-to-Merchant). It clocked over 2.73 billion transactions in volume and breached INR 5 trillion in terms of value.
- ❖ The transactions volume passing through Bharat Bill Payment Central Unit (BBPCU) in Q1 2021 stood at 90.71 million while the value of the transaction was INR 134.70 billion. It registered a growth rate of 99% and 129% in volume and value respectively against Q1 2020.

- ❖ AePS transactions (Offers, BHIM Aadhaar Pay) in Q1 2021 recorded a substantial volume of over 449.45 million transactions, registering about 120% growth over Q1 2020. It processed transactions worth INR 633.38 billion, an increase of 93% over Q1 2010.

6.1. Opportunities in E-banking

Despite various challenges that are prevailing in context with e-banking in India, the following opportunities are motivating the marketers for implementing e-banking:

- **Untapped Rural Markets:** Contributing to 70% of the total population in India is a largely untapped market for the banking sector. In all urban areas banking services entered but only a few big villages have the banks entered. So that the banks must reach in remaining all villages because the majority of Indians 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.
- **Competitive Advantage:** The benefit of adopting e-banking provides a competitive advantage to the banks over other players. The implementation of e-banking is beneficial for banks in many ways as it reduces costs to banks, improves customer relations, increases the geographical reach of the bank, etc. The benefits of e-banking have become opportunities for the banks to manage their banking business in a better way.
- **Increasing Internet Users & Computer Literacy:** To use internet banking it is a very important or initial requirement that people should have knowledge about internet technology so that they can easily adapt the internet banking services. The fast increasing internet users in India can be a very big opportunity and the banking industry should encash this opportunity to attract more internet users to adopt internet banking services. The table shows evidence of an increasing number of internet users in India.
- **Worthy Customer Service:** Worthy customer services are the best brand ambassador for any bank for growing its business. Every engagement with customers is an opportunity to develop a customer's faith in the bank. While increasing competition customer services have become the backbone for judging the performance of banks.
- **Internet Banking:** It is clear that online finance will pick up and there will be increasing convergence in terms of product offerings banking services, share trading, insurance, loans, based on 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 the 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.

6.2. Challenges in E-banking:

E-banking is in its emerging stage of development in India. Most of them are basic services only the deregulation of the e-banking industry coupled with the emergence of new banking technology is enabling new competitors to enter the financial services markets quickly and efficiently. However, it needs to be recognized that perception norms and an improvement in the functioning of e-banking services.

- **Security Risk:** The problem related to security has become one of the major concerns for banks. A large group of customers refuses to opt for e-banking facilities due to uncertainty and security concerns. According to the IMAI Report (2006), 43% of internet users are not using internet banking in India because of security concerns. So it is a big challenge for marketers and makes consumers satisfied regarding their security concerns, which may further increase online banking use.
- **The Trust Factor:** Trust is the biggest hurdle to online banking for most customers. Conventional banking is preferred by the customers because of a lack of trust in online security. They have a perception that online transaction is risky due to which frauds can take place. While using e-banking facilities lot of questions arises in the mind of customers such as: Did the transaction go through? Did I push the transfer button once or twice? Trust is among the significant factors which influence the customers' willingness to engage in a transaction with web merchants.
- **Customer Awareness:** Awareness among consumers about the e-banking facilities and procedures is still on the lower side in the Indian scenario. Banks are not able to disseminate proper information about the use, benefits, and facility of internet banking. Less awareness of new technologies and their benefits is among one of the most ranked barriers in the development of e-banking.
- **Privacy risk:** The risk of disclosing private information & fear of identity theft is one of the major factors that inhibit consumers while opting for internet banking services. Most consumers believe that using online banking services makes them vulnerable to identity theft. According to the study consumers' worry about their privacy and feel that bank may invade their privacy by utilizing their information for marketing and other secondary purposes without the consent of consumers.
- **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.

- **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.
- **Implementation of global technology:** There is a need to have an adequate level of infrastructure and human capacity building before developing countries can adopt global technology for their local requirements. In developing countries, many consumers either do not trust or do not have access to the necessary infrastructure to be able to process e-payments.
- **Non- Performing Assets (NPA):** Nonperforming assets are another challenge to the banking sector. Vehicle loans and unsecured loans increase 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 has to take care of regular repayment of loans.
- **Competition:** The nationalized banks and commercial banks have competition from foreign and new private sector banks. Competition in the 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 managed, 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 manpower is to be utilized and result-oriented targeted staff will be appointed.
- **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 returns to shareholders. Early adopters of technology acquire significant competitive advances Managing technology is, therefore, a key challenge for the Indian banking sector.

7. CONCLUSION AND SUGGESTIONS

In today's world of globalization, e-banking is a significant aspect of the development of the banking sector by solving major issues, challenges faced by e-banking. The Indian banking industry can develop customer loyalty towards the banking sector. This can be done through training and development and by making the banking process easier and familiar to the customers.

Digitalization has become conclusive for the banking sector in India, which plays a major role in providing better services to customers. Internet banking is one of the most significant banking channels that allow consumers to do many transactions, either financial or non-financial through a bank's websites. The various services offered are Internet banking, SMS banking, ATMs, and mobile banking, e-cheques, UPI, and debit/creditcards.

The Government of India and various government agencies are making an effort to make e-banking more safe, secure, and reliable with the convenience of digital channels. Most of the customers are visiting branches less often and they use online and mobile technology for their banking needs more often. Online and mobile banking are rapidly growing. Nowadays most of the people of India using e-banking for their transactions and make them stand with the current scenario of the country.

The younger generation is beginning to see the convenience and benefits of e-banking. In the years to come, e-banking will not only be an acceptable mode of banking but will be preferred mode of banking in India. Private sector banks represent more of the POS terminal market as compare to public sector banks. The prepaid payment instruments in the country are mostly paid through mobile wallets.

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