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E-Banking Issues & Challenges

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Abstract: *Financial system plays an important role in the economic development of the country. Because of the advent of information technology there is a change in the banking sector which has paved way for the introduction of retail electronic payment system and has progressed in the recent years in various countries and India has left no way behind. Implementation of internet in banking system has modernized the banks. E-Banking is knowledge based and mostly scientific in using the electronic devices of the computer resolution through the extensive use of IT without direct resources to the bank by the customers. The objective of the paper is to examine and analyze the progress made by the internet banking in India. The paper also highlights the challenges faced by Indian banks in adoption of technology. The views of the author are depicted as conclusion at the end.*
Keywords: *E-Banking, Information Technology, ATM's, RTGS, NEFTs, Debit and Credit Cards.*

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I. Introduction

The banking industry in India has experienced radical changes since independence with the improvements in technology & automation. The banking sector has become highly competitive. To survive & grow in the changing market scenario banks are opting for best in class & latest technologies. Introduction of IT has changed the banking industry from paper & branch banks to digitize & network based banking services. Information technology has become the base of the recent financial sector reforms and has helped the banks in developing leaner and more flexible structure that can respond quickly to the dynamic of a fast changing market. The use of IT in the banking sector has increased beyond ones imagination with features like online loan application, online uploads of documents, net banking online bill payments etc. before couple of decades who would have thought these things could have been possible.

Objectives of the study:
1) To identify various e-banking services/functions adopted by commercial banks.
2) To study and analyze the progress made by Indian banking industry in adoption of technology.
3) To study the challenges faced in E-banking.
4) To study the opportunities available in E-banking.
5) To find advantages of E-Banking to Customers and Banks

E-Banking:

E-banking refers to performing basic banking transactions by the customers round the clock globally through electronic media by sitting at their office or at homes through PC or LAPTOP. The customers can access the banks website for viewing their account details and perform the transactions on account as per their requirement. Modern banking is more information based speedy & boundary less due to the impact of E-Revolution. Electronic banking, also known as electronic funds transfer (EFT), is simply the use of electronic means to transfer funds directly from one account to another, rather than by cheque or cash.

Evolution Of E-Banking:

The early version of what was considered online banking began in 1981. New York City was the first place in the U.S. to test out the innovative way of doing business by providing remote services as four of its major banks — Citibank, Chase Manhattan, Chemical Bank and Manufacturers Hanover.

Evolution Of E-Banking In India:

Internet banking, both as a medium of delivery of banking services and as a strategic tool for business development, has gained wide acceptance internationally and is fast catching up in India with more and more banks entering the fray. India can be said to be on the threshold of a major banking revolution with net banking having already been unveiled.

In India, Reserve Bank of India outlined the mission to ensure that payment and settlement systems are safe, efficient, interoperable, authorized, accessible, inclusive and compliant with international standards. The Vision is to proactively encourage electronic payment system for ushering in a less cash society in India .Regulation is keen to promote innovation and competition with an intention to help payment system achieve international standards. Various initiatives by Reserve Bank of India, in mid-eighties and early-nineties, resulted in offering technology based solutions. The need evolved to provide cost effective alternative system.

Electronic Clearing Service (ECS) was launched in 1990s to cater to bulk and repetitive payments. By September 2008, a new avatar in the form of National Electronic Clearing cell was launched to handle multiple credits to beneficiary accounts. National Electronic Clearing Service (NECS) rides on core banking solution of member banks. The retail funds transfer system was introduced in 1990s to allow electronic transfer of fund for people to people payment. In November 2005, a robust system was launched to allow one to one funds transfer requirement of individuals and corporates. Prepaid instruments allow transaction for goods and services against the value stored on payment instrument. It may be in the form of smart cards, magnetic stripe cards, internet wallets, mobile accounts, mobile wallets and paper vouchers. Consequent to the guidelines in mobile banking, selected banks were permitted to offer the service after receipt of necessary permission from Reserve Bank of India. Indian Retail payments pose significant challenges and opportunities. Based on Payment system vision document released by Reserve Bank of India, the number of non-cash transactions, at 6 per person, is low in India. It is estimated that Government subsidies alone constitute more than Rs.2.93 trillion and electronification has a potential to translate 4.13 billion electronic transactions in a year.

The credit of launching internet banking in India goes to ICICI Bank. 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 electronic 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 report of RBI in jan 2016, there are 196079 ATM and 1337310 point of sale devices in India. Indian banks offer to their customers following e-banking products and services:

Automated Teller Machines (ATMs)
Internet Banking
Mobile Banking
Phone Banking
Tele banking
Electronic Clearing Services
Electronic Clearing Cards
Smart Cards
Door Step Banking
Electronic Fund Transfer

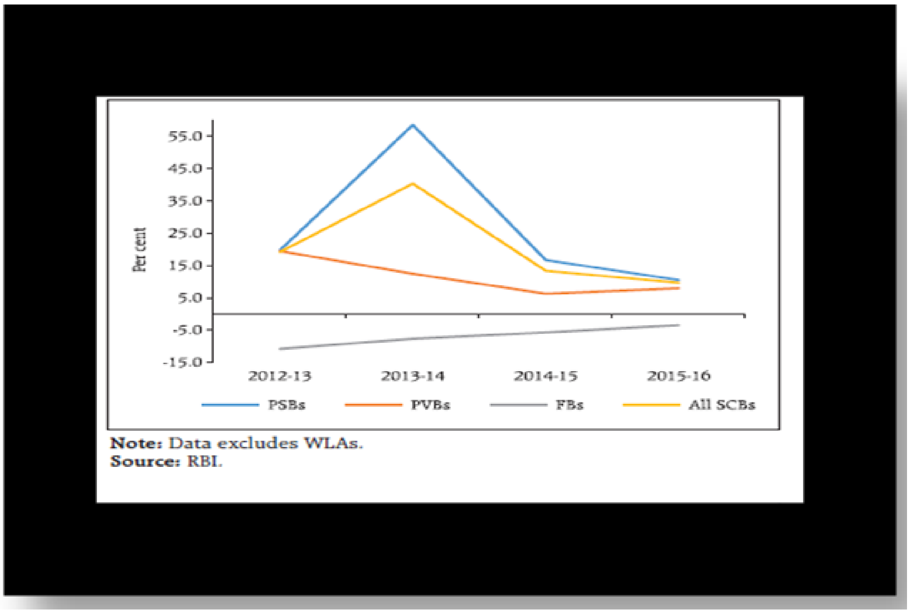
Automated Teller Machines (ATMs):

ATMs have become the order of the day in banking. Though they were evolved as novel cash dispensers, now they have emerged as a marketing tool to target the masses. There are more than 60.000 offsite and onsite ATMs of many banks which are nothing but virtual branches, as customers can conduct any transactions through the touch screens. They are user friendly and they have mass acceptability. At present banks have started outsourcing and sharing of ATM services to reduce costs. Most banks are used to cross sell other products also so as to meet the varied requirements of customers. Banks have started dispensing Railway tickets, Air tickets, Movie tickets etc. through ATMs. Voice activated ATMs ,ATMs with finger prints scanning technology etc are on the move. If they become operative they can save the customers from the hassel of carrying a card .In future a bank’s ATM would function like a Kiosk, delivering more on non cash transactions there by reducing fixed and operating costs.

Growth in ATMs

The geographic reach of ATMs increased further as the number of ATMs installed increased to around 0.2 million as at end March 2016, an increase of 9.7 per cent over the previous year. Public Sector Bank maintained more than a 70 per cent share in the total number of ATMs. Foreign Banks, however, continued to post a decline in the number of ATMs.

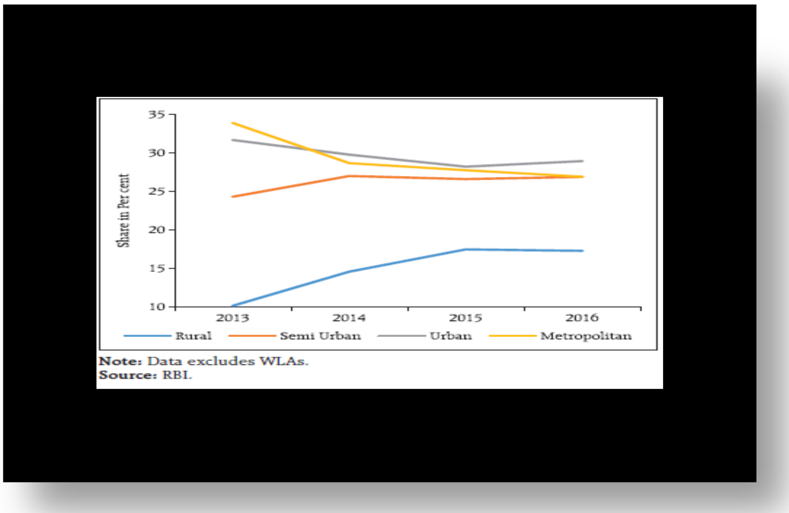
Growth in the number of ATMs



Distribution of ATMs

Regional distribution of ATMs became more balanced with the share of metropolitan, urban and semi-urban centres in total installed ATMs varying between 26.0 per cent and 29.0 per cent. However,metropolitan centres witnessed a marginal decline in the share of ATMs to 26.9 per cent in March2016 from 27.7 per cent during the previous year. Semi-urban and urban centres registered a marginalincrease in their share of ATMs.

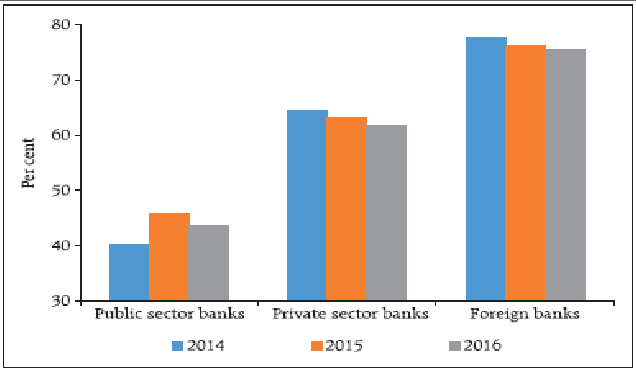
Geographical Distribution Of ATM's



Off-site ATMs

More than 60 per cent of the Private Sector Bank and Foreign Banks ATMs are off-site ATMs which are set up on a standalone basis and not on the premises of a bank's branches. However, in case of Public Sector Bank the share of off-site ATMs is less than 45 per cent. During 2015-16, the share of off-site ATMs in total ATMs declined in every bank group Given that the Reserve Bank has allowed banks to offer all their products and services through the ATM channel, a decline in the share of off-site ATMs is a disquieting development. Share of off-site ATMs.

Share of off-site ATMs



Note: Data excludes WLAs.
Source: RBI.

White label ATMs

During 2015-16 the number of white labels ATMs (WLAs) which are owned and operated by non-bank entities, increased significantly to 12,962 from 7,881 during the previous year. This spurt in WLAs can be attributed to the entry of new players in the banking space such as payments banks and small finance banks which are collaborating with WLA operators rather than having their own ATMs to minimize costs.

Debit Cards:

Debit Cards is another advanced technology of the electronic banking, now-a-days. These cards are the multi-purpose cards and can be used in ATMs for balance enquiry and cash withdrawal or can be used for easy shopping at various counters. Debit Cards ensure the automatic deduction of amount from the account just by scratching it on the machine. It makes it easier for the consumers to go for shopping with and even carrying cash with them.

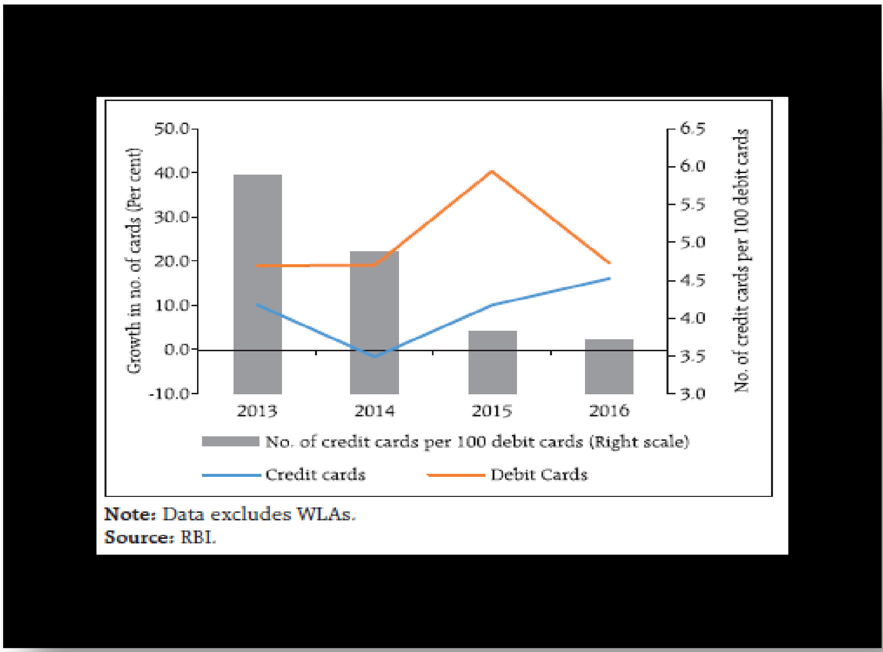
Credit Cards:

Credit Cards, unlike debit cards, provide credit to the consumers. A credit card system is a type of retail transaction settlement and credit system, named after the small plastic card issued to users of the system. A credit card is different from a debit card in that it does not remove money from the user's account after every transaction. In the case of credit cards, the issuer lends money to the consumer (or the user). It is also different from a charge card (though this name is sometimes used by the public to describe credit cards), which requires the balance to be paid in full each month. In contrast, a credit card allows the consumer to 'revolve' their balance, at the cost of having interest charged. Most credit cards are the same shape and size, as specified by the ISO 7810 standard.

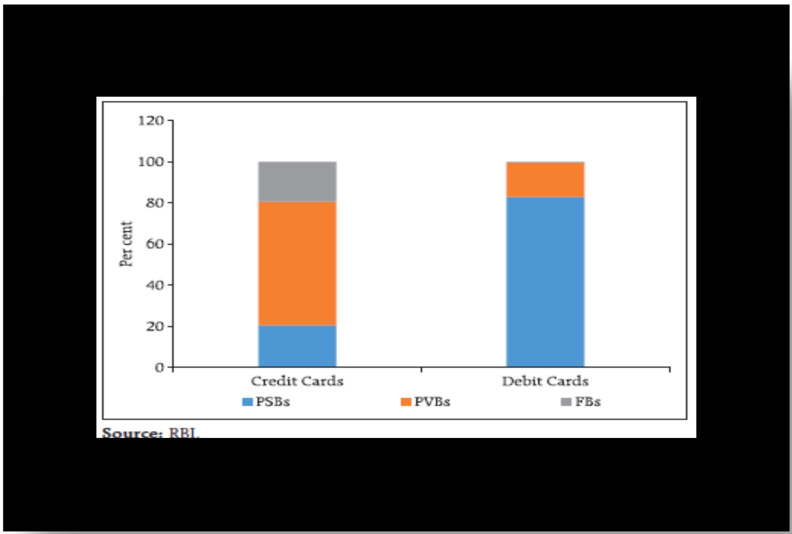
Debit and credit cards

Growth in the number of outstanding debit cards decelerated sharply to 19.6 per cent in 2015-16 from 40.3 per cent in the previous year. During 2014-15, the spurt in debit card growth was attributed to the Pradhan Mantri Jan Dhan Yojana (PMJDY) under which every account holder under the scheme was issued a RuPay debit card. As the growth in account opening under PMJDY decelerated, this resulted in a decline in the growth of debit card issuances. However, credit cards registered increased growth of 16.1 per cent during the year as against 10.1 per cent during 2014-15. Bank group-wise; PSBs maintained a strong lead in issuance of debit cards with a share of 82.8 per cent. On the other hand, PVBs had a dominant position in credit card issuances with a share of 60.1 per cent

Trends in debit and credit cards



Share of bank-groups in credit/debit cards



Real Time Gross Settlement (RTGS):

Real Time Gross Settlement (RTGS) is an electronic form of funds transfer where the transmission takes place on a real time basis. In India, transfer of funds with RTGS is done for high value transactions, the minimum amount being Rs 2 lakh. The beneficiary account receives the funds transferred, on a real time basis. The main difference between RTGS and National Electronic Funds Transfer (NEFT) is that while transfer via NEFT takes place in batches (with settlements and transactions being netted off), in the case of RTGS, the transactions are executed individually and on gross basis. The customer initiating the funds transfer through RTGS has to have the Indian Financial System Code (IFSC) of the beneficiary's bank, along with the name of the beneficiary, account number and name of the bank. The bank branches, both at the initiating and receiving end, have to be RTGS-enabled for the transaction to be processed. Customers with Internet banking accounts can do RTGS transactions on their own.

National Electronic Funds Transfer (NEFT):

National Electronic Funds Transfer (NEFT) is a nation-wide payment system facilitating one-to-one funds transfer. Under this Scheme, individuals can electronically transfer funds from any bank branch to any individual having an account with any other bank branch in the country participating in the Scheme

How is RTGS different from NEFT?

Timing: As mentioned above, NEFT operates in hourly batches. Currently, it has 11 settlements from 9am to 7pm on weekdays and five settlements from 9am to 1pm on Saturdays. So, in case you initiate a transaction after a settlement time you have no option but to wait till the next settlement time. But that's not the case with RTGS transactions, since they are processed constantly throughout the RTGS business hours. The service window for RTGS at banks is available from 9am to 4.30pm on week days and from 9am to 1.30pm on Saturdays for settlement at the RBI end. Keep in mind that the timings that each bank follows may vary.

Amount: As far as NEFT goes, it does not have a minimum or maximum limit of amount you can transfer. But the maximum amount per transaction is limited to Rs 50,000 for cash-based remittance and remittance to Nepal. As far as RTGS goes, it is mostly meant for large transactions. The minimum amount that can be remitted through it is Rs 2 lakh. RTGS does not have an upper ceiling for transactions.

Charges: For NEFT, inward transactions (when you receive funds via NEFT) are free, as no charges are to be levied from the person to whom fund are being transferred to. When you use NEFT to make an outward transaction (when you send funds via NEFT) at a bank branch for amounts up to Rs 1 lakh, the charge is up to Rs 5 plus service tax. For transactions above Rs 1 lakh and up to Rs 2 lakh, the charge is up to Rs 15 plus service tax. for transactions above Rs 2 lakh, the charges can't exceed Rs 25 plus service tax.

For RTGS, inward transactions (when you receive funds through RTGS) are free. For outward transactions (when you send funds via RTGS), if the amount is between Rs 2 lakh and Rs 5 lakh, the charges will be up to Rs 30 per transaction. If the amount transferred is above Rs 5 lakh, the charges can't exceed Rs 55 per transaction.

FEATURES OF ELECTRONIC BANKING:

1. Easy Electronic Fund transfer facility.
2. Better efficiency in Customer relationship management.
3. Making the Payments of bills like electricity, telephone bills, and mobile recharge.
4. It introduces virgin & innovative banking products & services.
5. It can view of balance of accounts and statements;
6. E-banking can bring doorstep services.
7. Balance and transaction history search.
8. Transaction history exports
9. Order mini statements
10. Mobile banking.
11. Pay anyone payments Multi Payments.
12. SMS banking services.

Advantages of Internet Banking:

Round The Clock Banking: E-banking facilities perform of basic banking transactions by customers round the clock globally. World-wide 24 hours and 7 days a week banking services are made possible. In fact there are no restricted office hours for E-banking.

Convenient Banking: E-banking increases the customer's convenience. No personal visit to the branch is required .customers can perform basic banking transactions by simply sitting at their office or at home through PC or LAPTOP. Customers can get drafts at their door steps through e-mail call. Thus E-banking facilitates home banking.

Low Cost Banking: The operational costs have come down due to technology adoption. The cost of transactions through internet banking is much less than any other traditional mode.

Profitable Banking: The increased speed of response to customer's requirements under E-banking vis-a-vis branch banking can enhance customer satisfaction and consequently can lead to higher profits via handling a larger number of customer accounts. Banks can also offer many cash management products for the existing customers without any additional cost.

Low –Cost Banking (Establishment): Brick and mortar structure of banking gets converted in to click and portal banking. Banks can have access to a great number of potential customers without the commitment cots of physically opening branches. Hence there is much saving on the cost of infrastructure. Moreover, requirements of staff at the banks get reduced to a great extent.

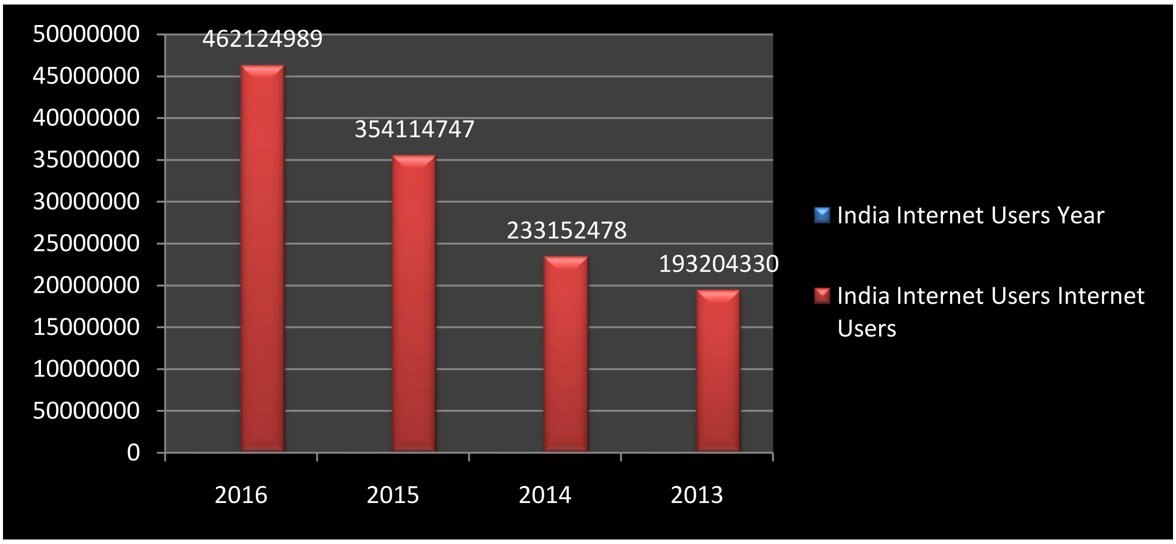
Quality Banking: E-banking opens new vistas for providing efficient economic and quality service to the customer's. E-banking allows the possibility of improved quality and an enlarged range of services being made available to the customers.
Speed Banking: The increased speed of response to customer's requirements under E-banking will lead to greater customer satisfaction and handling a large number of transactions at a lesser time. Thus, it increases the customer's convenience to a greater extent and facilitates better customer retention.
Service Banking: E-banking creates strong basic infrastructure for the banks to embark upon many cash management products and to venture in the new fields like E-commerce, EDI,etc. instant credit ,immediate payment of utility bills, instant transfer of funds, etc would be made possible under E-banking. In brief, it adds convenience to the entire banking services, apart from widening the range of services.

Challenges In E-Banking:
Security Risk: The problem related to the 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 IAMAI Report (2006), 43% of internet users are not using internet banking in India because of security concerns. So it's a big challenge for marketers and makes consumers satisfied regarding their security concerns, which may further increase the online banking use.
The Trust Factor: Trust is the biggest hurdle to online banking for most of the customers. Conventional banking is preferred by the customers because of lack of trust on the 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 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 at lower side in 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 barrier 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 the consumers while opting for internet banking services. Most of the consumers believe that using online banking services make 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 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 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.
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
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.
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.

Opportunities In E-Banking:
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.
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 bank in many ways as it reduces cost to banks, improves customer relation , increases the geographical reach of the bank , etc. The benefits of ebanking 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 very important or initial requirement that people should have knowledge about internet technology so that they can easily adopt the internet banking services. The fast increasing internet users in India can be a very big opportunity and banking industry should encash this opportunity to attract more internet users to adopt internet banking services. Table shows evidence of increasing number of internet users in India.

India Internet Users



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.

II. Conclusion

Finally the study concludes that with the passage of time E-banking has gained the momentum in the Indian context. Most of the banks have implemented E-banking facilities which are beneficial to both i.e., banks and the customers. Though there are many challenges and hurdles in the smooth implementation of E-banking system in India but at the same time E-banking is having a bright future. The use of ATMs, Debit and Credit has become a good source of usage of information technology and has paved a way for Digitalization.

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