A Study on Benefits and Challenges of E-Banking

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Abstract

New Information technology has given an important scope for the growth place in the of financial services, especially in a banking sector, transition are affected more than any other financial provider groups. Increased use of mobile services and use of internet as a new distribution channel for banking transactions and also for the international trading requires more attention towards e-banking security against fraudulent activities.

Introduction

The economy of most developing countries is cash driven; meaning that monetary transactions are basically made through the exchange of bank notes and coins for goods and services. However, this trend is now giving way to a modern and sophisticated payment system where the currency and notes are converted to data, which are in turn transmitted through the telephone lines and satellite transponders. This is as a result of rapid technological progress and development in the financial market There is faster delivery of information from the customer and service provider, thus differentiating Internet enabled electronic banking system from the traditional banking operation This transfer process makes money to be carried in information storage medium such as cheques, credit cards, and electronic means than its pure cash form. E–banking has thus become important channel to sell Products and Services; leading to a paradigm shift in marketing practices, resulting in high performance in the banking industry.

What is E-Banking?

In simple words, e-banking implies provision of banking products and services through electronic delivery channels. Electronic banking has been around for quite some time in the form of automatic teller machines (ATMs) and telephone transactions. In more recent times, it has been transformed by the internet – a new delivery channel that has facilitated banking transactions for both customers and banks. For customers, the internet offers faster access, is more convenient and available around the clock irrespective of the customer's location.

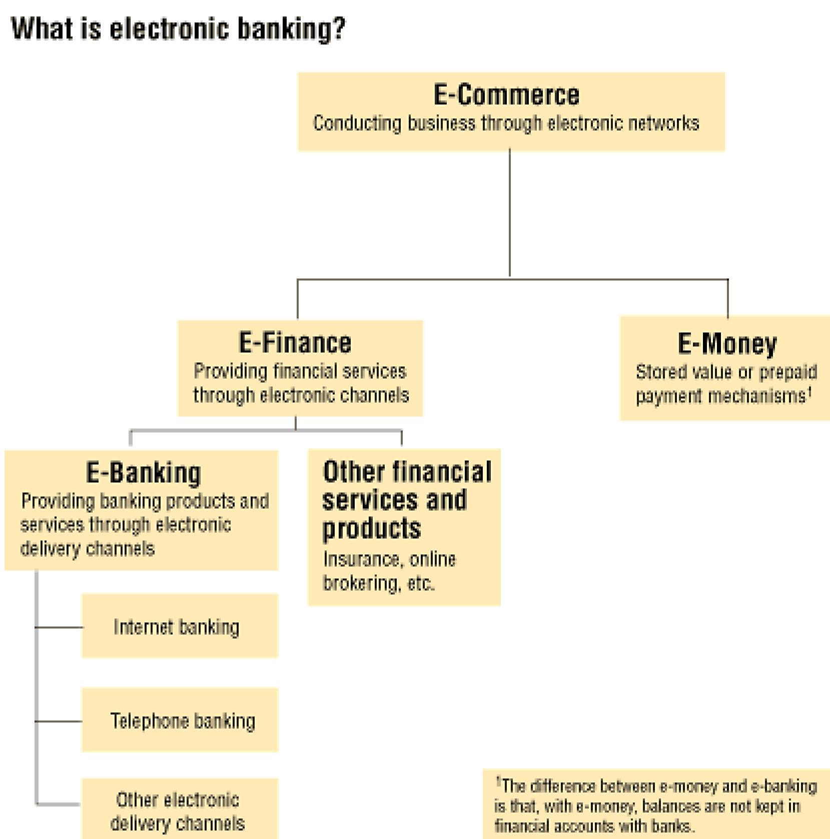

Figure 1

There are not many inventions that have changed the business of banking as quickly as the e-banking revolution. World over banks are reorienting their business strategies towards new opportunities offered by e-banking. E-banking has enable banks to scale borders, change strategic behavior and thus bring about new possibilities. E-banking has moved real banking behavior closer to neoclassical economic theories of market functioning. Due to the absolute transparency of the market, clients (both business as well as retail) can compare the services of various banks more easily. For instance, on the particular bank, they are able to change their banking partner much more easily than in the physical or real bank-client relationship. From the banks' point of view progress in information technology has slashed the costs of processing information, while the internet has facilitated its transmission, thus facilitating change in the very essence of the banking business. Around the world, electronic banking services, whether delivered online or through other mechanisms, have spread quickly in recent years.

Internet Banking In India

The financial products and services have become available over the Internet, which has thus become an important distribution channel for Banks. Banks boost technology investment spending strongly to address revenue, cost and competitiveness concerns. The purpose of present study is to analyze such effects of IB in India, where no rigorous attempts have been undertaken to understand this aspect of the banking business. A study on the Internet users, conducted by Internet and Mobile Association of India (IAMAI), found that about 23% of the online users prefer IB as the banking channel in India, second to ATM which is preferred by 53%. Out of the 6,365 Internet users sampled, 35% use online banking channels in India.

This shows that a significant number of online users do not use IB, and hence there is a need to understand the reasons for not using it .Until the advent of ATMs, people were unaware and/or not directly affected by the technological revolutions happening in the banking sector. ATMs became the major revolution for customers, since it offered the facility to avoid long queues in front of the cashiers in banks. It also provides them the flexibility of withdrawing money— anytime, anywhere. In the study by IAMAI, it was found that the people are not doing financial transactions on the banks' Internet sites in India because of reasons such as security concerns (43%), preference for face-to-face transactions (39%), lack of knowledge about transferring online (22%), lack of user friendliness (10%), or lack of the facility in the current bank (2%).

Teller Machine [ATM]

ATMs enable the banking services beyond the regular banking hours. An ATM is a device for receiving and dispensing cash, round the clock, and may be placed either inside or outside the bank's premises.

Initially, ATMs were introduced as standalone machines and were used only as cash dispensers. However, recently, ATMs have developed with capabilities of performing a wide variety of banking functions.

Types of ATMS

1. **Onsite ATM:** Onsite ATM is situated either within the branch premises or in very close proximity of the branch.

2. **Offsite ATM:** Offsite ATM is not situated with in the branch premises but is located at other places, such as shopping centres, airports, railway and petrol stations.

3. **Worksite ATM:** Worksite ATM is located within the premises of an organization and is generally meant only for the employees of the organization.

4. **Cash Dispenser:** Cash dispenser allows only cash withdrawal, balance enquiry, and mini statement requests.

5. **Mobile ATM:** Mobile ATM refers to an ATM that moves in various areas for the customers. Few private banks have introduced on wheels.

Benefits of E-Banking

The main benefit from the bank customers' point of view is significant saving of time by the automation of banking services processing and introduction of an easy maintenance tools for managing customer's money. The main advantages of e-banking for corporate customers are as follows (BankAway! 2001; Gurău, 2002):

- Reduced costs in accessing and using the banking services.

- Increased comfort and timesaving - transactions can be made 24 hours a day, without requiring the physical interaction with the bank.

- Quick and continuous access to information- Corporations will have easier access to information as, they can check on multiple accounts at the click of a button.

- Better cash management- E-banking facilities speed up cash cycle and increases efficiency of business processes as large variety of cash management instruments are available on Internet sites of Estonian banks. For example, it is possible to manage company's short-term cash via Internet banks in Estonia (investments in over-night, short- and long term deposits, in commercial papers, in bonds and equities, in money market funds).

- Reduced costs- This is in terms of the cost of availing and using the various banking products and services.

- Convenience- All the banking transactions can be performed from the comfort of the home or office or from the place a customer wants to.

- Speed - The response of the medium is very fast; therefore customers can actually wait till the last minute before concluding a fund transfer.

- Funds management- Customers can download their history of different accounts and do a "what-if" analysis on their own PC before affecting any transaction on the web. This will lead to better funds management.

Benefits to the Banks

- It is an alternative to extended banking hours.

- It is cheaper if transactions are large in number, thereby, reducing footfall at the branches.

- Reduces operating expense of the banks.

- Helps banks to avoid transportation of cash and cash handling by the employees.

- Increases market penetration.

Benefits of E-Banking to Customers

- The various benefits of E-Banking to customers of banks are as below:

- Under E-Banking, customer of banks can enjoy new and innovative banking products and services.

- In E-Banking, customer can enjoy wide range of banking products and services at reduced cost.

- In E-Banking, increased comfort and time-saving facilities are made available to customers twenty four hours a day without requiring their physical interaction with the bank.

- In E-Banking, quicker, easier and continuous access to information is made available to the customers.

- E-Banking helps the customers to ensure better management of cash by making available to customers a large variety of cash management instruments at banking sites.

- E-Banking offers round the clock access to banking. Automatic Teller Machines (ATMs) or 24 hour Teller allows round the clock access to banking services.

- Through E-Banking i.e. through ATMs, it is possible for customers of a bank withdraw cash, make deposits, or transfer funds between accounts.

- E-Banking facilitates pre-authorized direct withdrawals for making payment of recurring computers bills, insurance premium, utility bills, etc.
- E-Banking, allows the customers to handle many banking transactions through personal computers.
- E-Banking facilitates payment for purchases with a debit card.
- Electronic banking facilitates electronic fund transfer (EFT).
- E-Banking inculcates a sense of financial discipline by recording each and every transaction.
- E-Banking lowers the risk and generates higher security to the customers, as it has necessary safeguards against risks and insecurities
- Online purchase of goods and services and online payment for the same provided by E-Banking is a boon to the customers.

Challenges in E-Banking

- The ability to adopt global technology to local requirements: An adequate level of infrastructure and human capacity building are required before developing countries can adopt the global technology for their local requirements. For example, the review of the migration plan of Society for Worldwide Interbank Financial Telecommunications (SWIFT) to the internet shows that to date full migration has not occurred in many developing countries due to the lack of adequate infrastructure, working capital, and required technical expertise. Broadly accepted e-payment systems are another such example. Many corporate and consumers in some developing countries either do not trust or do not have access to the necessary infrastructure to be able to process e-payments.
- The ability to strengthen public support for e-finance: Historically, most e-finance initiatives in developing countries have been the result of cooperative efforts between the private and public sectors. For example, Singapore's successful Trade Net system was a government-sponsored project. If the public sector does not have the necessary means to implement the projects it is essential that cooperative efforts between public and private sectors, along with the multilateral agencies like the World Bank, be developed to facilitate public support for e- finance related initiatives.
- Confidentiality, integrity and authentication are very important features of the banking sector and were very successfully managed the world over in pre-internet times. Communication across an open and thus insecure channel such as the internet might not be the best base for bank-client relations as trust might partially be lost
- E-Banking has created many new challenges for bank management and regulatory and supervisory authorities. They originate not just from increased potential for cross border transactions but also for domestic transactions based on technology applications which raise many security related issues [Hawkins 2002]. The Basel Committee on Banking Supervision's Electronic Banking Group (EBG) (2001) has defined risk management principles for electronic banking. They primarily focus on how to extend, adapt, and tailor the existing risk-management framework to the electronic banking setting. It is necessary to know whether the efforts undertaken by the RBI are sufficient to ensure a reasonable level of security.

➢ Fifth, there are some serious implications of international e-banking. It is a common argument that low transaction costs potentially make it much easier to conduct cross-border banking electronically. For many banks, cross- border operations offer an opportunity to reap economies of scale. But cross-border finance also needs a higher degree of cross-border supervision. Such cooperation may need to extend to similar supervisory rules and disclosure requirements (for efficiency and to avoid regulatory arbitrage) and some harmonising of legal, accounting and taxation arrangements. The real question here is whether India at the present juncture is adequately prepared to face the consequences of cross border e-banking?

➢ There is no commercial bank in India, which has exclusively specialised in the small business segment. SMEs in India have generic problems like the inability to provide quality data, to exhibit formal systems and practices and the lack of asset cover. Legal and regulatory compliance has also been inadequate. Traditional drawbacks like asymmetric and nontransparent data and low capital bases continue to characterize their balance sheets. The problem is further compounded due to the preponderance of a large cash economy in this segment. There are many challenges involved in a web-based relationship model for SMEs within India given the current state of regulation [Sushant Kumar 2001].

➢ The flip side of this technological boom is that electronic banking is not only susceptible to, but may exacerbate, some of the same risks—particularly governance, legal, operational, and reputational—inherent in traditional banking. In addition, it poses new challenges. In response, many national regulators have already modified their regulations to achieve their main objectives: ensuring the safety and soundness of the domestic banking system, promoting market discipline, and protecting customer rights and the public trust in the banking system.

➢ New methods for conducting transactions, new instruments, and new service providers will require legal definition, recognition, and permission. For example, it will be essential to define an electronic signature and give it the same legal status as the handwritten signature. Existing legal definitions and permissions—such as the legal definition of a bank and the concept of a national border—will also need to be rethought.

Conclusions

The banking industry has been a leader in the e-business world in recent years. The e-banking revolution has fundamentally changed the business of banking by scaling borders and bringing about new opportunities. In India also, it has strongly impacted the strategic business considerations for banks by significantly cutting down costs of delivery and transactions. It must be noted, however, that while e-banking provides many benefits to customers and banks, it also aggravates traditional banking risks. Compared to developed countries, developing countries face many impediments that affect the successful implementation of e-banking initiatives. One of the benefits that banks experience when using e- banking is increased customer satisfaction. This due to that customers may access their accounts whenever, from anywhere, and they get involved more, this creating relationships with banks. Banks should provide their customers with convenience, meaning offering service through several distribution channels (ATM, Internet, physical branches) and have more functions available online. Other benefits are expanded product offerings and extended geographic reach. With all these benefits banks can obtain success on the financial market. But e-banking is a difficult business and banks face a lot of challenges.

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