

## A STUDY ON EFFECTIVENESS OF ELECTRONIC BANKING SYSTEM



### I NTRODUCTION

The major challenge faced by the banks is to protect the falling margins due to the impact of competition. To avoid falling in profit requires increase in the volume of transaction which could be increased only by exploiting the advantages of technology and by providing sound customer based services. So, technology up gradation is required

Not only in improving the functionalities of the bank but to have sound customer base. It has changed the method of marketing, advertising, distribution, pricing, financing and cost saving through electronic channels and products. These changes call for a dynamic, aggressive, adaptable and changing work-force to meet the demands of customers' relationship, product differentiation, values, reputation and regulatory prescriptions. Further, the changes staring at the face of bankers are undergoing a rapid transformation in response to the forces of competition, efficiency in operations, reduced operating margins, better asset/ liability management, risk management, anytime and anywhere banking, etc Banking has come a long way from the time of ledger cards and other manual filing systems. Most of the banks today have electronic

systems to handle their daily voluminous tasks of information retrieval, storage and Processing. Irrespective of whether they are automated or not, banks by their nature are continually involved in all forms of information management on a continuous basis. The computer is, of course, an established tool for achieving a competitive edge and optimal resource allocation. Competition and the constant changes in technology and lifestyles have changed the face of banking. Nowadays, banks are seeking alternative ways to provide and differentiate amongst their varied services

E-banking refers to the effective deployment of IT by the banks. It is about using the infrastructure of the digital age to create opportunities - both local and global. It enables the dramatic lowering of transaction costs and the creation of new types of banking opportunities that address the barriers of time and distance. Banking opportunities are local, global and immediate in e-banking. The current web based variant of banking is the latest of several generations of systems: ATM was the first well-known machines to provide electronic access to customers of retail banks. With advent of ATM, banks are able to serve customers outside the banking hall. Next came phone banking where users call their

bank's computer system on their ordinary phone and use. Every banking organization is making every effort to provide various e-banking technologies available at the disposal of a customer in order to make his or her banking experience a comfortable one. Electronic banking most commonly referred to as e-banking or internet banking makes the unimaginable possible in the current world.

**Definition:**

**Electronic banking:** The definition of e-banking varies amongst researches partially because electronic banking refers to several types of services through which a bank's customers can request information and carry out most retail banking services via computer, television or mobile phone

**EVOLUTION OF BANKING:**

The word „Banco“ of Italian origin means a bench. It originated as a result of contracts to borrow and lend money which were placed over on benches by merchants during the Renaissance period. The traces of banking can be dated back to around 2000 BC in the province of Babylon. Medieval literature provides evidence that highlight priest during the Mesopotamian period in temples would provide loans to the trading community. Temples then were considered as a safe haven for depositing gold as temples were buildings with rock-hard structures and sacred nature

Entrepreneurs from the Greek and Roman empires during the Fourth Century BC undertook various types of financial transactions. It was during this time that money lenders started, Trading by recording entries in books and the concept of coins was introduced. Coins played a vital role as merchants found it difficult to trade animals due to constraints such as weight, transportation and hence these merchants resorted to lending coins. The Romans were the first to include the confiscation of land due to non-payment of the loan amount. The civil war brought about changes in the federal banking systems concerning banking rules and legislation. The nationalized banks were allowed to not only issue notes but also charge a tax on bank notes issued by them. The note carried a guarantee by the Reserve Bank that even if the nationalized banks did not pay the Reserve Bank would make right the debt. Well-developed banking techniques, rules, and

regulations by the English banks became a universal model for banks around the world

**OBJECTIVES OF THE STUDY**

- To evaluate application of e-banking
- To identify the banking facilities available in banks
- To know the difficulties faced by the customers in e-banking
- To identify the possibility of crimes in E-banking
- To examine the impact of e-banking on the operations, payment and Clearing system in banking sector

**E - BANKING : AN INDUSTRY ANALYSIS:**

Internet banking 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. A recent questionnaire, to which 46 banks responded, has revealed that at present, 11 banks in India are providing Internet banking services at different levels, 22 banks propose to offer Internet banking in near future while the remaining 13 banks have no immediate plans to offer such facility. Further incentives provided by banks would dissuade customers from visiting physical branches, and thus get 'hooked' to the convenience of arm-chair banking. The facility of accessing their accounts from anywhere in the world by using a home computer with Internet connection, is particularly fascinating to Non-Resident Indians and High Net worth Individuals having multiple bank accounts. Costs of banking service through the Internet form a fraction of costs through conventional methods. Rough estimates assume teller cost at Re. 1 per transaction, ATM transaction cost at 45 paisa, phone banking at 35 paisa, debit cards at 20 paisa and Internet banking at 10 paisa per transaction. The cost conscious banks in the country have therefore actively considered use of the Internet as a channel for providing services. Fully computerized banks, with better management

of their customer base are in a stronger position to cross sell their products through this channel (TEIB)

**THE GLOBAL E-BANKING SCENARIO:**

Online or e-banking was preceded by home banking, which allowed clients to access their accounts and performs basic transactions over the phone. It was introduced in the mid-1970s in order to reduce back-office check processing costs. Robert Spicer, Vice President of Chevy Chase, a federal savings bank, says that it failed to generate enough consumer interest to become cost effective. Electronic banking started in the early 1980s both in the United States and the United Kingdom. It really took off with the arrival of the World Wide Web, when traditional banks offered their clients account access online, while some new banks started operating on the Web only. The creative process of development of these services was probably sparked off after many companies started the concept of online shopping. The online shopping promoted the use of credit cards through Internet. Many banking organizations had already started creating data ware housing facilities to ease their working staffs. The development of this database was widely used during the development of ATM's.

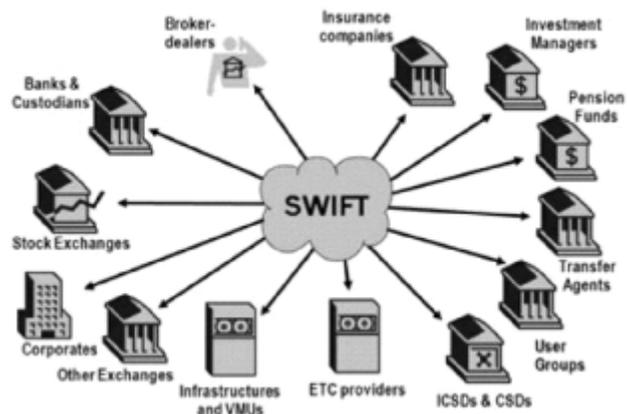
Banks have established an Internet presence with various objectives. Most of them are using the Internet as a new distribution channel. Financial services, with the use of Internet, may be offered in an equivalent quantity with Lower costs to the more potential customers. There may be contacts from each corner of the world at any time of day or night. This means that banks may enlarge their market without opening new branches. The banks in the US are using the Web to reach opportunities in three different categories: to market information, to deliver banking products and services, and to improve customer relationship

**INDIAN BANKING INDUSTRY AND ONLINE AWARENESS OF ITS USER BASE**

A large chunk of the Indian banking industry still belongs to the public sector banks having the most extensive network of physical branches. These are followed by large private banks and lastly by Multinational banks (MNC)

Who have the smallest physical network and

therefore their online banking needs to be the most developed and able to address user needs without requiring human intervention. The fact that most government organizations have their payroll accounts with public sector banks contribute significantly to the large customer bases of these banks. Traditional public sector banks have existed for many years and have serviced diverse income groups. This has resulted in their customer base being huge as well as belonging to a wider demographic representation, given India's heterogeneous population as well. However, most of the traditional customers prefer to bank with a 'bank with a human touch' and prefer public sector banks as they form an emotional relationship with their bank personnel, which is not really encouraged by private sector or multi-national banks.



**STRUCTURE OF INDIAN BANKING SYSTEM:**

The banking industry in India is governed by the Reserve Bank of India. It can further be divided into the organized sector and unorganized sector. An organization chart has been developed with reference to the banking structure for better understanding as on 31st August 2017. The outline structure of the Indian Banking System is as follows:

**CONCEPT OF E-BANKING:**

Electronic banking or e-banking is a facility provided to bank customers or other financial institutions to conduct various types of financial transactions electronically or through the bank's website.

E-banking has transformed the traditional banking techniques and has now begun gaining

worldwide acceptance across developed and developing countries. E-banking is a macro concept used to describe various forms of e-banking technologies. Some of the various forms of e-banking technologies are mentioned and explained briefly below:

**ATM:** Automated Teller Machine (ATM) is an automated computerized machine which on behalf of the said bank carries out transactions like depositing, withdrawing, balance inquiry through a secured method without the intervention of a human teller (staff).

**BANKING: MOBILE:** Mobile Banking is a facility offered by the said bank to avail its services over the mobile phone handset of the customer. Various banking transactions like money transfer, bill payments, recharges, balance inquiry and others can be carried out through a protected system at the convenience of the customer's time and place.

**INTERNET BANKING:** Internet banking is the cutting-edge technological facility offered by a financial institution. In this case, a financial institution sets up a webpage which sends messages to and fro of the bank's servers and thus allowing a customer with the help of internet facility to access his bank accounts. This again is given at the convenience of place and time of the customer through which he can access his account with the help of a desktop, laptop or nowadays even a smart phone as long as he has the internet facility

**TELEBANKING:** Telephone banking is a facility given by the financial institutions wherein a customer can execute an array of banking transactions through a phone call or Interactive Voice Response (IVR) system. A customer, in this case, needs to answer specific security question after completing the authentication process he or she can perform financial transactions without the need to visit their branch physically. Many banks nowadays are even offering a 24-hour service for such facility

**ELECTRONIC FUND TRANSFER (EFT):** In this case, a bank customer can transfer funds from his or her account from one financial organization to that of another customer holding an account in an altogether different financial organization in a matter of a few hours. This can be done by giving a simple application in the bank's

present format for Real Time Gross Settlement (RTGS), National Electronic Funds Transfer (NEFT) or Immediate Payment Service (IMPS). The customer can even carry out the same from the comfort of ATM, Mobile Banking and Internet Banking.

## REVIEW OF LITERATURE

**Gholamreza Bazgosha (2012)** in their article, "Technology of E-banking: Perspective of customer's perceived risk and uncertainty" recommended that special attention should be paid to the procedure of decision making and the selection of modern services by customers. With regards to the fact that psychological risk plays important roles in the rate of using internet banking while it itself has complex dimensions which affect the other risk and uncertainty dimensions directly or indirectly

**Ikechukwu Okonkwo (2011)** in his article, "Behavioural intention to adopt internet banking by bank customers" founded that there is an increasing growth in the users. Show that there is an increasing growth in the users of internet banking services by bank customers

**Sandeep Kumar Panda (2012)** in his article, "Moving towards EBanking in an Emerging Economy: Indian Scenario" showed that the majority of the users are not even using these services at least once a week. The banks could encourage customers to use these services more frequently through rewarding customers for conducting transactions through these electronic channels with incentives such as reduced service charges

**Mahdi and Mehrdad (2013)** in their article "E-Banking in Emerging economy: Empirical Evidence of Iran" examined financial services industry over time that has opened to historic transformation that can be termed as developments which is advancing rapidly in all areas of financial intermediation and financial markets such as e-finance, e-money, electronic banking (e-banking), e-brokering, e-insurance, e-exchanges, and even esupervision. The new information technology (IT) is turning into the most important factor in the future development of banking, influencing banks' marketing and business strategies. In recent years, the adoption of e-banking began to occur quite extensively as a channel of distribution for financial

services due to rapid advances in IT and intensive competitive banking market

**Murugarathina and Ravichandran (2014)** in their article, "E-Banking A changing scenario in India", they have recorded that 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 consideration for banks (including the PSBs) by significantly cutting down costs of delivery and transactions

**Nigamanand Biswas (2015)** in his article, "Biometric ATM: Boon to Indian Rural Bank Customers", he has concluded that nearly 70 per cent of Indian villagers do not have a bank account and tapping them would require

Multiple banking service channels. Biometric Automatic Teller Machines (BATMs) can be one of the vital channels to achieve financial inclusion of the country

**Adam Vrechopoulos and Evangelos Atherinos (2016)** in their study "Web banking layout effects on consumer behavioural intentions" adopt an innovative conclusive causal research design towards testing the research hypotheses. To that end, an experimental application was developed in the laboratory and the research hypotheses were "packed-up" with references from different disciplines (i.e. marketing and information systems) providing through that an interdisciplinary nature on the present study

**Jayakumar and Sathiya (2017)** in their article, "E-Banking services: A study" he has listed the e-banking services to the customers and the bank. It reduces cost of transaction and cost of administration while providing better and efficient services

## METHODOLOGY

Methodology From the literature review it is very clear that very little research has been done in India. This paper is descriptive and exploratory study based on primary and secondary sources. Secondary sources are: Books, Case studies, Research Articles, Journals, Newspapers, Internet and Magazines. Primary sources are telephone interview. Finally we have analysed effectiveness of electronic banking system.

## NEED OF THE STUDY

The focus of this study will be mainly on effectiveness of e-banking in modem business. Selected banks of chittoor district under both Public sector and private sector banks are taken under Random sampling method. The study is based on both primary and secondary data. Primary data collected from the sample customers and bank employees of selected bank through interview Secondary data collected through sources like annual report of RBI Bulletin. In addition to above, the study also use sources like articles, journals, banks websites, daily paper etc. the aim of the study is to know depths and effectiveness of e-banking adopted in selected banks and how far they are successful.

The study is mainly based on the primary data collected from the employees working in the banking sector of chittoor districts. Sample of 10 employees was drawn from 5 selected banks in all, five public banks and private banks each. A specially designed interview schedule was used as tool, and bank employees were requested to fill it during office hours. Different branches from different selected banks were selected for the purpose

## CONCLUSION

E-banking offers a high level of convenience for managing one's finances even from one's bedroom. However, it continues to present challenges to the financial security and personal privacy. Many people have their account details compromised, as a result of online banking. Thus, if one is going to use it for financial transactions, he should be aware of the risks involved. Awareness of the risks and problems enables him to take precautions for a more secured online banking experience the perception of employees regarding the strategic and operational value of electronic banking and its impact on their working conditions and performance of the banks has been studied. It has been observed that both public and private sector banks are providing electronic banking services to their customers under the guidelines of the Reserve Bank of India and to retain their customers in the competitive financial market. The employees also believe that these services are essential for the survival and growth of banking sector. So, it is mandatory to provide such services and employees

also feel comfortable in this e-banking environment. This perception is supported by the fact that a large number of employees gave supportive and positive response regarding e-banking usage in their respective banks and its impact on banks efficiency and productivity

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