

# Remedial Measures to Improve Online Services in the Banking Sector – An Overview

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## **ABSTRACT:**

This paper seeks to understand the remedial measures to improve online services in banking sector. With the expansion of Internet usage, E -banking has become one of the most revolutionized components of today's economic growth. E-banking is a powerful value-added tool to attract new customers and retain the existing ones. With the proliferation of internet and computer usage, the electronic delivery of e-banking service has become ideal for banks to meet customer's expectations (Poon, 2008). Besides, it helps in eliminating costly paper handling and teller interactions in the increasingly competitive banking environment. The development of e-banking has become a priority for core advantage. The potential competitive advantage of e-banking lies in the areas of cost reduction and satisfaction of consumer needs. There are an increasing number of the various types of new financial distribution channels due to the innovation of extensive technology and advancement in the telecommunications sector. Banks attempt to gain competitive advantage in today's dynamic environment, which must therefore meld technology into building relationship and marketing activities (Moriarty et al., 1983).

**Key words:** Electronic, banking, Objectives, Development, E – banking, Internet.

## **INTRODUCTION:**

E - Banking is a new delivery channel for banks in India. The E -banking channel is both an informative and a transactional medium. However, E -banking has not been popularly adopted in India as expected (Ravi et al., 2007). Malhotra and Singh (2007) carried out a study to find the E -banking adoption by the banks in India. The study suggests that larger banks or banks with younger age, private ownership and lower branch intensity possess high probability of adoption of this new technology. Banks with lower market share also perceive E -banking technology as a means to increase the market share by attracting more and more customers through this new channel of delivery. E - Banking involves consumers using the Internet to access their bank account and to undertake banking transactions. At the basic level, Internet banking can mean the setting up of a web page by a bank to give information about its products and services. At an advanced level, it involves provision of facilities such as accessing accounts, transferring funds, and buying financial products or services online. This is called "transactional" online banking (Sathye, 1999). Opening an account, however, has always required an actual in-person visit to the branch to sign a signature card but now an Internet-friendly account opening procedure can

expand the geographical footprint of a bank as well as improve customer convenience (Community Banker, 2006).

IT has played a crucial role in the financial services. Internet has proved a magic wand for financial services and products, particularly in banking sector. Banking sector has been early adopted of technology to offer latest modes for transacting business. Banks have transformed themselves and are offering services through internet, from computerization to networking to ATMs, and now E- Banking, banks have moved up the value chain.

### **Definition of E-Banking:**

E-banking is defined as the automated delivery of new and traditional banking products and services directly to customers through electronic, interactive communication channels. E-banking includes the systems that enable financial institution customers, individuals or businesses, to access accounts, transact business, or obtain information on financial products and services through a public or private network, including the Internet.

Customers access e-banking services using an intelligent electronic device, such as a personal computer (PC), personal digital assistant (PDA), automated teller machine (ATM), kiosk, or Touch Tone telephone. While the risks and controls are similar for the various e-banking access channels, this booklet focuses specifically on Internet-based services due to the Internet's widely accessible public network. Accordingly, this booklet begins with a discussion of the two primary types of Internet websites: informational and transactional.

### **Objectives:**

1. To study the role of E – Banking services in the banking sector.
2. To explore the E - banking services offered by banks.
3. To Study the development and status of E – Banking in India.
3. To know how E – Banking creates values for the banks and their customers.
4. To suggest some remedial measures to improve E-banking services in the banking sector.

### **Review of Literature:**

In the extant literature, the most cited attributes that influence the use of e-banking are: convenience of usage (Venkatesh and Davis, 1996; Elizabeth, 1999; and Poon, 2008), Perceived ease of use (Davis, 1989; and Wang et al., 2003), Perceived usefulness (Wang et al., 2003; Davis, 1989), Perceived credibility (Wang et al., 2003), Cost reduction (Devlin, 1995; Gerlach, 2000; Jun and Cai, 2001; Siriluck and Speece, 2003; and Poon, 2008), trust (Hoffman et al., 1999; and Gerrard and Cunningham, 2003), Security (Sathye, 1999; and Poon, 2008), government supports (Simon and Victor, 1994; Attaran, 2000; Zugelder et al., 2000; Bala et al., 2002), awareness, reluctant to change (Simon and Victor, 1994), choice of access to bank (Elizabeth, 1999), technology, and helpfulness of staff, and banks' reputation (Mols, 1999). As for Internet banking, Joseph et al. (1999) investigate the influence of Internet on the delivery of banking service. Their study identifies six underlying dimensions of electronic banking service quality. They are convenience and accuracy, feedback and complaint management, efficiency, queue management, accessibility and customization. Jun and Cai (2001) identified to seventeen service quality dimensions

of Internet banking service quality. These are reliability, responsiveness, competence, courtesy, credibility, access, communication, understanding the customer, collaboration and continuous improvement, content, accuracy, ease of use, timeliness, aesthetics, security and divers features. It is also suggested that both Internet-only banks and traditional banks offering Internet banking services should focus more on the following important dimensions e.g., responsiveness, reliability and access .

### **Development of E -banking in India:**

The financial reforms that were initiated in the early 1990s and the globalization and liberalization measures brought in a completely new operating environment to the banks. The bankers are now offering innovative and attractive technology-based services and products such as ‘Anywhere Anytime Banking’, ‘Tele-Banking’, ‘Internet Banking’, ‘Web Banking’, etc. to their customers to cope with the competition. The process started in the early 1980s when Reserve Bank of India (RBI) set up two committees in quick succession to accelerate the pace of automation of operations in the banking sector. A high-level committee was formed under the chairmanship of Dr. C. Rangarajan, then Governor of RBI, to draw up a phased plan for computerisation and mechanization in the banking industry over a five-year time frame of 1985–1989. The focus by this time was on customer service and two models of branch automation were developed and implemented. Having gained experience in the earlier mode of computerization, the second Rangarajan committee constituted in 1988 drew up a detailed perspective plan for Computerization of banks and for extension of automation to other areas such as funds transfer, e-mail, BANKNET, SWIFT, ATMs, E -banking, etc. The Government of India enacted the Information Technology Act, 2000 (generally known as IT Act, 2000), with effect from 17 October 2000 to provide legal recognition to electronic transactions and other means of electronic commerce. RBI had set up a ‘Working Group’ on e -banking to examine different aspects of e-banking. The Group had focused on three major areas of E – banking such as (1) technology and security issues, (2) legal issues and (3) regulatory and supervisory issues. RBI had accepted the recommendations of the ‘Working Group’, and accordingly issued guidelines on ‘internet banking in India’ for implementation by banks. The ‘Working Group’ has also issued a report on e-banking covering different aspects of E -banking. E - Banking in India is currently at a nascent stage. While there are scores of companies specializing in developing e-banking software, security software and website designing and maintenance, there are few online financial service providers. ICICI bank is the first one to have introduced e -banking for a limited range of services such as access to account information, correspondence and, recently, funds transfer between its branches. ICICI is also getting into e-trading, thus offering a broader range of integrated services to the customer. Several finance portals for provision of non-banking financial services, e-trading and e-broking have come up. Commercial applications such as Electronic Bill Presentment (EBP) and Procurement systems may not be introduced in India immediately, but are likely to have a greater impact than the retail applications. The corporate sector is adequately computerized and has already recognized the important role of e-commerce in future. Increasingly, companies are setting up websites even where there are no immediate tangible benefits to them from doing so.

**Status of E -banking in India:**

In Indian context, many publications throw light over the importance of e -banking and also its prospects for the Indian banking industry. Unnithan and Swatman (2001) studied the drivers for change in the evolution of the banking sector, and the move towards electronic banking by focusing on two economies, Australia and India. The study found that Australia is a country with internet-ready infrastructure as far as telecommunication, secure protocols, PC penetration and consumers' literacy are concerned. India, by comparison, is overwhelmed by weak infrastructure, low PC penetration, developing security protocols and consumer reluctance in rural sector. Although many major banks have started offering E -banking services, the slow pace will continue until the critical mass is achieved for PC, internet connections and telephones. However, the upsurge of IT professionals with growing demands is pressuring the government and bureaucracy in the country to support and develop new initiatives for a faster spread of E -banking. Rao and Prathima (2003) provided a theoretical analysis of E -banking in India, and found that as compared to the banks abroad, Indian banks offering online services still have a long way to go. For online banking to reach a critical mass, there has to be sufficient number of users and the sufficient infrastructure in place. Various authors have found that E -banking is fast becoming popular in India (Gupta, 1999; Pegu, 2000; Dasgupta, 2002). However, it is still in its evolutionary stage. By the year 2006–2007, a large sophisticated and highly competitive E -banking market will develop. Almost all the banks operating in India are having their websites, but only a few banks provide transactional E -banking. A survey carried out by Malhotra and Singh (2006) shows that only 48% of the commercial banks operating in India as on March-end 2005 offers e -banking. In India, comparatively less number of studies has been conducted on the current status of e -banking and customer satisfaction compared to other countries. Thus, there is a lot of scope for the research to present new ideas concerning e -banking in India which may be useful to the Indian banking industry. There are a series of papers that observe that e -banking has revolutionized the banking industry and the banking industry is under pressure to offer new products and services. However, to succeed in today's electronic markets a strategic and focused approach is required.

**Internet users in India:**

The role of internet is becoming inevitable to corporate and society. Across the world, governments and corporate are increasingly working towards the better utilization of the internet. The internet which was initially perceived as a communication media is now metamorphosing into a powerful business media (Sakkthivel, 2006). According to the Internet & Online Association of India (IOAI), the Indian internet population is currently over 25 million and is expected to grow to 100 million by 2007 (Survey by New Media Review, 2005). In July 2005, Internet World Stats reported that there were 39,200,000 internet users in India representing 3.6% of the population. (Internet World Stats, August 2005). Even with millions of web users in its cities, the internet penetration rate for India remains well below 5%. Despite India's technology outsourcing power, the country's internet penetration rate is low. JuxtConsult, a research firm based in New Delhi, surveyed urban internet users in April 2005 by talking to 30,000 Indian web users about their lifestyle and their web use. There are about 17.5 million urban dwellers in India who use the

internet consistently with an additional 5.2 million who use it occasionally. Thus, in India, slowly but steadily, the Indian customer is moving towards e -banking. A number of banks have either adopted e -banking or are on the threshold of adopting it. The banks started e -banking initially with simple functions such as getting information about interest rates, checking account balances and computing loan eligibility. Then, the services are extended to online bill payment, transfer of funds between accounts and cash management services for corporate. Recently, banks have started to facilitate payment of e-commerce transactions by directly debiting bank accounts or through credit cards. It will add to the revenues of the bank.

### **Role of E - Banking in the Banking sector:**

Electronic banking (e-banking) is the newest delivery channel of banking services. 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 (Daniel, 1999; Mols, 1998; Sathye, 1999). Burr, 1996, for example, describes it as an electronic connection between the bank and customer in order to prepare, manage and control financial transactions. Electronic banking can also be defined as a variety of the

following platforms: (a) Internet banking (or online banking), (b) telephone banking, (c) TV-based banking, (d) mobile phone banking, and (e) PC banking (or offline banking). In this paper, the ATM (Automated Teller Machine) channel is also added to the research. The channels comprise two major groups: the traditional channels and e-channels. (1) The traditional channels are defined on the basis of the type of human assistance: teller, retail or corporate manager. (2) E-channels are divided into 4 sub-groups on the basis of how the channel is seen by clients, with some exceptions based on the technological processes of transaction execution: Internet-based (online bank for corporate clients Telehansa.net, online bank for private clients Hanza.net, offline bank for large corporate clients Telehansa), card-related (ATM – Automated Teller's Machine and POS –payment terminal), Phone channels (call center, IVR, mobile bank) and Automated channels ("virtual" bank core channels where direct debit and incoming payments are effected)..services are one of the primary benefits which a customer looks for while adopting a new channel. The consumers consider the benefits and weigh them against the costs associated. The Internet offers a lot of benefits to consumers, like any time anywhere banking, updated information, convenience, faster transaction, etc. E – Banking services are replacing traditional services and creating a new scale in transformation. In the initial stage, e- channels were introduced in metropolitan cities and urban areas, but recently some banks have started focusing on rural and semi urban areas. New private sector banks are taking the lead in capturing rural and semi urban sector. The different e- channels such as ATMs, Credit and debit cards, Tele-banking, Mobile – banking, online –banking and Smart Cards, are changing the face of the retail banking sector. New private sector banks and foreign banks are attracting customers in a big way. The potential customers and big companies are shifting their accounts from traditional banks (not fully computerized) to E - banks (fully computerized and provide different e – channels). If traditional banks, mostly public sector banks, do not transform their business by introducing IT, their survival will become difficult, as now-a-days IT is not a matter of convenience but a survival factor. Therefore, e – banking services are a potent factor for transformation in this e – age.

## **Classification of Internet Banking in India:**

The Reserve Bank of India (RBI), the central bank in India, constituted a working group on Internet Banking. The group divided the internet banking products in India into the following three types based on the levels of access granted:

### **Information-Only System:**

General purpose information like interest rates, branch location, bank products and their features, loan and deposit calculations are provided on the bank's website. There exist facilities for downloading various types of application forms. The communication is normally done through e-mail. There is no interaction between the customer and the bank's application system. No identification of the customer is done. In this, there is no possibility of any unauthorized person getting into the production systems of the bank through the Internet.

### **Electronic Information Transfer System:**

The system provides customer-specific information in the form of account balances, transaction details, and statement of accounts. The information is still largely in the read-only format. Identification and authentication of the customer is through password. The information is fetched from the bank's application system either in batch mode or offline. Here also, the application systems cannot directly access the production systems of the bank through the Internet.

### **Fully Electronic Transactional System:**

This system allows bidirectional capabilities. Transactions can be submitted by the customer for online update. This system requires high degree of security and control. In this environment, the web server and the application systems are linked over secure infrastructure. It comprises of the basic requirements in terms of technology covering computerization, networking and security, inter-bank payment gateway and legal infrastructure or introduction of Internet banking.

The recommendations cover the risks that are associated with Internet banking technology, security standards, and supervisory control of (RBI, 2001).

## **How E – banking creates values for the banks and their customers:**

The major impact of technological revolution in banking can be stated in terms of:

- ❖ Paradigm shift from traditional banking to customized banking as the services can be delivered via computer.
- ❖ Convenient banking i.e. "Anytime, Anywhere banking". A customer can check balance by logging into banks website through a user name and password. In this way he can enquire balance, status of cheques, perform funds transfers, order drafts, request issue of cheque books etc.

❖ The prime factors or reasons for using Internet banking include convenience, saving of time, better control over finances, and more information available. It has been observed that customers who adopt online banking are typically more profitable to the bank, stay with the bank longer and use more products strengthening the bank customer relationship<sup>8</sup>. Information Technology and Internet banking has bridged the information gap, which was interestingly because of human involvement. Banks can make the information of products and services available on their site, which is, an advantageous proposition. Prospective customer can gather all the information from the website and thus if he comes to the branch with queries it will be very specific and will take less time of employee. Customer can visit these websites and can compare the services offered by a bank with that of another. Customer can get all the information, by saving money and time. The trend thus emerging out is that of virtual corporate system where the human role is minimized to maximum effect.

The overall banking size and structure has increased considerably. It can also be accredited to the current market characteristics. More private players and multinational banks are establishing their base in India. Earlier nationalized bank dominated the scenario. Now after deregulation private banks have emerged as a powerful force. For example with over a million customer accounts, 600 branches and a network of 2,000 ATMs across country ICICI bank leads the way<sup>10</sup> in private bank category. As a result, there is a fierce competition among these players for capturing the savings of individuals and current accounts of organizations. This has been spearheaded by the liberalization in the insurance industry. Insurance industry is giving fierce competition through their offerings on various policies. This sudden surge has necessitated the use of technology in offering better services competitively. Most of the banks have coupled IT with their offering to add value.

Several banks have been positioning themselves as a one-stop shop financial service provider with a fairly exhaustive range of products, including deposit products, loans, credit cards, debit cards, depository (custody services), investment advice, bill payments and various transactional services. These apart, banks have also been entering into the business of selling third-party products such as mutual funds and insurance to the retail customers. To provide their customers greater flexibility and convenience as well as to reduce servicing costs, banks have been investing to computerize their branches and in new delivery channels such as ATMs, phone banking, internet banking and mobile banking.

### **Practical implications:**

Banks are encouraging internet banking to reduce service delivery costs and improve service quality for customers. However, a greater understanding of the impact of this on relationships is essential

### **Conclusion:**

E –Banking has changed the traditional patterns of bank operations. These changes in technology, competition and lifestyles all have an impact on how banks operate today. Actually the customer had to physically visit the bank office in order to carry out banking operations. With the introduction of e – banking customers are saving money and time since they don't have to physically visit the bank office. Every bank realizes that they must provide some kind of e – banking to their customers in order to survive. Through e – banking banks can better maintain the

relationship with customers because with e – banking customers tend to interact more with provided services. It also increases the revenues of banks and can easily gain competitive advantage through differentiation of banking services and thereby an image improvement.

In true E -banking, any inquiry or transaction is processed online without any reference to the branch (anywhere banking) at any time. Providing internet banking is increasingly becoming a 'need to have' than a 'nice to have' services.

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