

A study of e-banking in India: With special reference to new private sector banks

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Abstract

The U.S. banking system is unusual in consisting not only of some very large banks but also a large number of relatively small community banks. This bifurcated banking structure resulted largely from a legal framework that, in the past, restricted banks' abilities to diversify geographically. This institutional structure, in turn, reflected a long-standing concern in the United States about the concentration of banking power in a few very large institutions located far away from many of the customers they serve. The bifurcated banking system in the United States has served the economy well. Over time, with regulatory change and financial innovation, large banks have become complex organizations engaged in a wide range of activities. They provide a variety of services to their customers, but often rely on hard financial information, computer models, and centralized decision-making as the basis for conducting business. In contrast, small banks have focused more on "relationship banking" basing decisions on personal knowledge of customers' creditworthiness and a keen understanding of business conditions in the communities they serve. In this way, the bifurcated banking system has served the needs of a diverse U.S. economy composed of businesses of all shapes and sizes and consumers with diverse needs and preferences. While community banks have a clear place in the U.S. banking system, some analysts have questioned whether they play a sufficiently important role in the economy to warrant public interest and oversight. With increased merger activity over the last 20 years, the number of community banks—while still quite large—has declined. In addition, small banks pose little systemic risk to the nation's financial system. And, if community banks were not there, other financial services providers might readily step in to take their place. This article examines the role of community banks in the U.S. economy. The first section of the article argues that, while community banks hold only a small share of the nation's banking assets, they provide important financial services—for which there are few, if any, substitutes—to some key sectors of the economy. The second section argues that community banks will continue to play an important role in the banking industry, even as technology and market conditions change. The paper concludes that the Federal Reserve therefore has a strong interest in understanding issues facing community banks.

Keywords: e-banking, ATM, debit card, credit card

Introduction

The theme and the purpose of the study

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banking system, some analysts have questioned whether they play a sufficiently important role in the economy to warrant public interest and oversight. With increased merger activity over the last 20 years, the number of community banks—while still quite large—has declined. In addition, small banks pose little systemic risk to the nation's financial system. And, if community banks were not there, other financial services providers might readily step in to take their place. This article examines the role of community banks in the U.S. economy. The first section of the article argues that, while community banks hold only a small share of the nation's banking assets, they provide important financial services—for which there are few, if any, substitutes—to some key sectors of the economy. The second section argues that community banks will continue to play an important role in the banking industry, even as technology and market conditions change. The paper concludes that the Federal Reserve therefore has a strong interest in understanding issues facing community banks.

Sound banking system is the backbone of economic as well social development and information technology in turn has become the backbone of banking activities. Technology which was playing supportive role became essential part of modern banking activities. The Indian banking system has undergone significant structural transformation since the 1990s. An administered regime under state ownership until

the initiation of financial sector reforms in 1992, the sector was opened to greater competition and technological up-gradation by the entry of private banks and more liberal entry of foreign banks in line with the recommendations of the Report of the Committee on the Financial System (Chaired by Shri M. Narasimham).

In the present era of technology banks can not imagine introducing and selling of products. Technology, especially information technology plays very crucial role not only to complete the activities with high efficiency but also has the potential to innovate and meet the future requirements. Information technology was primarily employed to automate the back offices of banks in the 1970s. Computer were introduced as ledger posting machines as, at the time; many employee unions of government-owned commercial banks opposed any form of automation. Employee unions argued that such a move would lead to unemployment. IT has indeed been deployed in a variety of back-office and customer interface activities of banking. Even the government-owned commercial banks today are happy to call themselves fully computerized.

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The Indian banking sector was early adopter of e-banking and that way set an example to other industries, the need to opt for automation for taking full advantage of operational efficiency. E-banking through modern banking technology

ensures 27-7-365 services and marks the customers feel comfortable to undertake the financial transactions with plastic cards and transact from the home. Today, banks are not only automating their core banking operations, but also increasingly using information Technology for front-end customer intensive operations. This

Trend is expected to be strengthened over the next few years and spread from urban to rural areas and from foreign and Indian private banks to public sector, regional rural banks and co-operative banks.

E-banking is electronic banking or banking using electronic media. E-banking is a generic term for delivery of banking services and products through electronic channels, such as the telephone, the internet, the cell phone etc. The concept and scope of E-banking is still evolving. It facilitates an effective payment and accounting system thereby enhancing the speed of delivery of banking services considerably. While E-banking has improved efficiency and convenience, it has also posed several challenges to the regulators and supervisors. Several initiatives taken by the government of India, as well as the Reserve Bank of India (RBI), have facilitated the development of E-banking in India. The range of services offered by e-banking includes: Electronic Fund Transfer (EFT), Automatic Teller Machine (ATM) & Point of Sales (POS) Electronic Data Inter Change (EDI), Internet Banking, Tele-banking, Debit/Credit/Smart Cards and Anywhere Banking. E-banking provides competitive advantage with unlimited network to the bank is not limited to number of branches.

In India, too e-banking has taken roots. A number of banks have set up banking portals allowing their customers to access facilities like obtaining information, querying on their accounts, etc. Soon, still higher level of online services will be made available. Other banks will sooner than later, take to Internet banking.

However, from a technology perspective, banks in India have been confronted by two major challenges in adopting information technology both as a strategic tool and as an operational necessity. The first major challenge was the availability of a comprehensive centralized banking application system that could cope with the various operational requirements and control that are very specific to the Indian banking environment, by virtue of almost 30 years of strong government control. Most of the internationally recognized centralized banking application systems were built to meet the banking needs and practices particularly of the Western world and the Aisa Pacific region.

It is appropriate to mention here that some of the world-renowned software companies in India that have come of age in the last decade have built world-class centralized banking application systems in collaboration with banks in India. These solutions not only meet the requirements of Indian bank but are today among the best-selling core banking application systems across the world. The second major challenge was the difficulty in deploying a healthy data communications network that would connect the branches of the bank to the data center hosting the core banking application systems.

The large numbers of studies have been conducted over the various issues of banking such as NPAs, working capital management, role in development, performance, risk, assets liabilities management, etc. but less number of studies have

been conducted on e-banking, it is, therefore, decided by the scholar to conduct a study on various dimensions of e-banking in India.

A small discussion has been made e-banking has some challenges with expediency of banking. It is a vital need to have an in-depth evaluation of the impact of e-banking banking over the several dimensions of Indian banking. Hence, present study entitled “A Study of E-Banking in India: with Special Reference to New Private Sector banks” has been undertaken by the scholar.

This study is an effort to find appropriate benchmarking of E-banking of Indian Banking Industry from the national as well as global perspective. So that improvement in the operations and implementations of the inefficient which, are lagged behind in the deregulated economy arena can be made.

The banking system in the United States has always been unique in the sense of containing large numbers of small banks closely tied to their local communities. But the banking system in this country has also undergone tremendous change during the last 20 years due to deregulation and mergers. While community banks still comprise the vast majority of banks, the question arises whether their role in the banking system has declined to the point of insignificance. This section shows that community banks account for a much smaller share of total banking activity than they did 20 years ago, but that they still play a key role serving certain types of communities and providing certain types of banking services

The study will cover following major objectives

1. To examine the impact of E-banking on development of Indian banking industry.
2. To find paucity of infrastructural facilities and to suggest for fundamental infrastructure facilities required for E-banking adoption.
3. To evaluate the current status of e-banking and identify potential areas, in banking industry based on available resources and draw up integrated development plans for each such area.
4. To scrutinize the hurdles before e-banking practices in various operations activities and suggesting suitable strategy.
5. To analyze the impact of e-banking on cost of transaction of customer as well as bank.
6. To identify international best practices on operational and internal control issues of e-banking and suggesting appropriate ways for adopting the same in India.
7. To find the factors responsible for e-banking backwardness in Indian banking industry.
8. To find the changing customer expectations from banking services in technological era.
9. To evaluate the impact of e-banking practices on performance of banks.
10. To suggest measures for raising the e-banking practices levels and standards for Indian banking.

Research Methodology

To carry out the study the following methodology will be adopted.

The Universe

It consists of all New Private Sector Banks.

Data Collection

The study will be based on primary as well as secondary data. The primary data will be collected through the personal contacts with the respective authorities and through the questionnaire containing relevant information. This will make the study more informative, effective and meaningful. The source of secondary data will be published and unpublished work from the government records, Published Annual Reports of the government of India and RBI. Various Books, Journals, Magazines and other published from Govt. and Non-Governmental bodies will also be collected for the use of the study.

Sampling

In order to save time and money, the study aims to draw inferences based on samples, Convenience sampling method will be adopted in the research methodology because data/information related to economy includes same type of operational activities in diversified areas. All this will be done with the assumption that the sample data will enable to estimate the required parameters. Samples so selected are truly the representative of characteristics of the item of the universe of the banking industry and it will result valid and reliable conclusion.

Tools and Techniques

On the basis of the data/information so collected from the various sources the tabulation, analysis and interpretation will be made to make study more meaningful and complete. Mathematical and statistical tools such as averages, percentage, trend analysis, ratio analysis etc. will be used to complete the purpose of the study. The use of index, tables, charts, graphs and diagrams etc. will also be made where ever they will be needed and necessary for clarity of opinions, easy understanding and to make the presentations of research more profile.

Hypothesis

The following hypotheses have been formulated. The hypothesis testing with the help of mathematical and statistical methods will conclude the strength of the assumptions made under the proposed study. The outlines of the hypothesis framed are as follows.

- i) There is no significant change in the behavior of performance variables of banks on adoption of E-banking practices.
- ii) It is assumed that E-banking has no direct impact over the productivity of banks.
- iii) There is no significant change on the customer satisfaction created by E-banking services and level of existing services.
- iv) It has been assumed that per employee profit is similar pre and post adoption of E-banking practices.
- v) E-banking has no significant impact over the banking industry development in India.
- vi) It has been assumed that bank employees have not recorded significant transform in job satisfaction on adoption of e-banking practices.

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