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**DYNAMICS OF INTERNET BANKING IN INDIA: HURDLES AND OPPORTUNITIES**

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The global economy is undergoing transformation at a rapid pace and technology is instrumental for this change. The impact of technological revolution is being experienced in all walks of life and banking sector has also witnessed the same. Indian banking sector has also gone under complete transformation. Banking is no longer limited to traditional brick and mortar system rather it is shifting to brick and click system and virtual banking. New services are being offered by the banks through the medium of internet. One of the reasons for e-banking gaining momentum in India is the increasing internet penetration among people. People today prefer using electronic medium for banking because of lot of advantages associated with it. Though e-banking provides lot of advantages in form of speed, ease and convenience it has also put forth some issues and challenges that needs to be addressed. In this paper, an attempt has been made to give an overview of e-banking, how it has evolved over a period of time in India. The paper also throws a light on growth of different e-banking products in last five years which are significantly being used in Indian banking industry. Banking activities have been into existence since 18th century BC. It has also become an important source of information and knowledge. Due to this, many banking and finance organizations have come up with the idea of Internet banking or online banking. In this paper we have tried to study the Nature, challenges & opportunities of Internet Banking in India.

**KEYWORDS:** Digital Banking, Traditional banking, Banking Sector**INTRODUCTION**

Banking system always has an important role to play in every country's economy. It is vital for any nation as it provides for the needs of credit for all the sections of the society. India is not only the world's largest independent democracy but it is also an emerging economic giant. The growth potential of India is based on its strong banking institution. The infusion of information technology in banking sector has completely revolutionized how the banking sector operated. In order to survive in the new globalized world, banks had to opt for this new change. Banking in India has been through a long journey. It has seen a number of changes due to technology and innovation. Arrival of card, introduction of Electronic Clearing Service (ECS) introduction of Electronic Funds Transfer and concept of online banking and mobile banking are the various novelties which took place in banking sector. Now all the banks have started with the concept of multi- channels, like ATMs, credit cards, debit cards, telephone/mobile banking, internet banking, etc. The role of banking has now changed from a mere financial intermediary to service provider of various financial services under one roof acting like a financial supermarket. With extreme competition among the banks, entire banking system is undergoing a change. Today, modern banking not only looks for new ways to attract but also to retain the customers and gain competitive advantage over their competitors.

Banking activities have been into existence since 18th century BC. Venice, after being the first city to find a bank for keeping money on safe deposit and the clearing of cheques, is also a pioneer in the involvement of a bank with state finances. The main purpose that banks have been serving since their inception is keeping our money safe for us. While keeping our, they also let us earn a certain amount of interest on the money deposited with them. Traditional banks have been doing this, and internet banks continue the same function. The only difference is in the way the transactions are made.

The Internet is rapidly turning out to be a tool of worldwide communication. The increasing use of Internet earlier promoted producers and entrepreneurs to sell their products online. It has also become an important

source of information and knowledge. Due to this, many banking and finance organizations have come up with the idea of Internet banking or online banking. Internet banking has been around for quite a few years. In fact, it was introduced in the 1980s and has come a long way since then. The last decade has seen a profuse growth in internet banking transactions. Several pieces of legislation have also been introduced in this area.

Though it began in the 1980s, it was only in the mid nineties that internet banking really caught on. What attracts customers to internet banking is the round the clock availability and ease of transactions. Studies estimate that internet banking still has a long way to go.

There are several banks that have customers who prefer banking in the traditional ways. Online services started in New York in 1981 when four of the city's major banks offered home banking services. The online banking services are becoming more and more prevalent due to the well developed systems.

### **BANKING IN INDIA**

Banking is one of the most information intensive sectors and is an ideal domain for the successful development of E-Commerce. Internet banking refers to the use of the Internet as a remote delivery channel for banking services. It has fulfilled customer's banking dream anywhere, anytime, anyway. Internet banking involves consumers using the Internet to access their bank account and to undertake banking transactions. With the passage of time, it has been seen that a lot of banks coming up on the scene and competition is already on its way.

Every bank is trying to use as much latest technology as it can to facilitate its customers. One of the key features in this regard is internet banking, which a lot of banks are currently providing in India. Though with the passage of time, internet banking trend is increasing in India, but still there are a lot of customers, who hesitate to give their information online, like Debit/Credit card numbers. This is not only at customer's end, even a lot of banks are still afraid of giving internet banking solution in India. Everyone who has a little knowledge of internet banking knows that all cards with Visa and Orix logo can be used anywhere on internet for purchase—there are a lot of banks in India issuing credit cards, even debit cards with Visa logo. There are a lot of banks in the list that are facilitating their customers with good online facilities.

In India the traditional method of banking was through branch banking. It was in 1991, that with economic reforms, the banking industry also witnessed the new wave of banking methods. It was Saraf Committee which was constituted by RBI in 1994 that recommended the use of Electronic Fund Transfer System (EFT), introduction of electronic clearing services and extension of Magnetic Ink Character Recognition (MICR) beyond metropolitan cities and branches. It was ICICI bank which became the pioneer of e-banking in India. It was the first bank to introduce online banking services in 1996. Its initiatives were followed by Citibank, IndusInd Bank and HDFC Bank who provided internet banking services in 1999. Various initiatives have been taken by both the government and the Reserve Bank from time to time to smooth the expansion of e-banking in India. The Government of India enacted the IT Act, 2000 which provided legal recognition to electronic transactions and other means of electronic commerce. The important technological developments witnessed in the new age payment systems in India are:

1. Arrival of card- based payments- debit card, credit card- late 1980"s and early 1990"s.
2. Introduction of Electronic Clearing Service (ECS) in late 1990"s
3. Introduction of Electronic Funds Transfer/ Special EFT in the early 2000"s
4. Real Time Gross Settlement (RTGS) was introduced in March 2004
5. Introduction of NEFT (National Electronic Funds Transfer) 2005/06
6. Introduction of CTS (Cheque Truncation System) in the year 2008

## **E-BANKING PRODUCTS IN INDIA**

There are various indicators of electronic banking which are used in India. In this study we, only focus on the main parameters of e-banking such as ATM , NEFT , Debit cards and Credit cards.

ATM – The Automated Teller Machines or ATMs as they are popularly, called is a modern day machine which is used by the customers to have access to money day in day out without visiting the bank branches in person. The system is known as “Any Time Money” or “Any Where Money” as it empowers the customers to withdraw money from the bank from any of its ATMs without any restriction of time. Use of ATM is considered as the most popular method of dispensing cash easily. Figure 2 illustrates the increase in ATM deployment by the scheduled commercial banks in India from the period 2012 to 2016

With the passage of time, trend is changing but still we are lacking in use of modern technology which must be utilized to save money, problems and most important thing ‘Time’. An awareness campaign may be started to make people aware of useful benefits of internet banking, like easy purchase, pay their bills, and make transactions from their offices and home. This thing may give enough awareness to more customers that they may start asking their bank about internet banking. Hope this will work to make the banks to start online services to meet up the present challenges of the world. Internet banking in India is still on its way and hope to have some fruitful advancement in future.

Daniel (1999) defines electronic banking as the delivery of bank's information and services by banks to customers via different delivery platforms that can be used with different terminal devices such as a personal computer and a mobile phone with browser or desktop software, telephone or digital television. Electronic banking is defined by Barron's Dictionary (2006) as a form of banking where funds are transferred through an exchange of electronic signals between financial institutions, rather than an exchange of cash, checks, or other negotiable instruments.

## **INTERNET BANKING**

Internet banking can be defined as a facility provided by banking and financial institutions that enable the user to execute bank related transactions through Internet. The biggest advantage of Internet banking is that people can expand the services sitting at home, to transact business. Due to which, the account holder does not have to personally visit the bank. With the help of Internet banking many transactions can be executed by the account holder. When small transactions like balance inquiry, record of recent transaction, etc. are to be processed, the Internet banking facility proves to be very handy. The concept of Internet banking has thus become a revolution in the field of banking and finance.

## **CONTRIBUTION OF INTERNET BANKING IN FINANCIAL DEVELOPMENT**

Internet banking is a new type of financial service created by the intersection of traditional retail financial services delivery and the emergence of the Internet. Internet banking involves the provision of basic banking services through web. These services include

- Checking and savings accounts
- Consumer loans and mortgage financing
- Credit and debit cards
- Private banking services

Many people find that internet banking is very convenient as the advantages far outweigh any disadvantages. There are many different positive aspects to banking online. One of them is that you can do your banking from home, without wasting fuel driving to the bank or waste time waiting in queues.

The history of banking online has always stressed convenience for the customers as well as security. Today, customers can not only enjoy secure banking transactions online, but they can have their paycheck

automatically deposited into their bank account and have it available that day, instead of waiting until the cheque clears. In addition of getting automatic deposits, online banking transactions also include automatic bill paying.

Instead of writing a check or going to the bank to pay bills, one can have their bills that they pay each month automatically deducted from their bank account each month. Internet banking is not just concentrated on your checking account. One can also use internet banking to get a loan. There are some online banks that offer every service that a land bank will offer: the only difference is that they also exist online. Bank also, most likely, encourage online banking and offer free features such as checking to savings account deposits, automatic bill paying, automatic deposit and home equity loans-all with the click of a mouse. Internet banking is the way of the future. Years ago, people had to go to the bank when they were open and wait in long queues to perform a transaction. Today, they can bank from your home without having to wait a second. Internet banking is a subject receiving great attention in the banking industry and the regulatory community. As with other areas of ecommerce, discussions about Internet banking often proceed without reference to the actual state of market developments. Internet banking increases competition within the banking system and from non-bank financial institution. The Internet increases the power of the customer to make price comparisons across suppliers quickly and easily. As a consequence, this pushes prices and margins downward. Internet banking through the World Wide Web (WWW) does not need any special software to buy and set up. The customers contact their bank and then they input their user id and password at their bank's Web site to get full access to their account.

They just need to have a secure Web browser. This way of banking online requires the use of Internet browsers that support 128-bit encryption, which protects consumers by scrambling all the personal information transmitted between a consumer's computer and the bank. As a group, large banks are more likely to offer Internet banking, although a growing number of small banks also offer it, or plan to. Nevertheless, large banks appear to have an advantage over small banks in the range of services they offer over the Internet. An empirical examination of bank profitability indicates that, at this point in time, Internet banking is not having an independent impact on bank profitability. This result may of course change as the use of Internet banking grows. Use of Internet banking, while forecast to grow significantly, is still relatively modest. We argue that the modest use of Internet banking by customers of banks is due in large part to a lack of a compelling value added proposition. This problem is less severe for Internet banking customers and may explain why some banks are targeting their Internet strategies toward business customers. Nevertheless, since most customers have accounts at banks that offer Internet banking, customer usage patterns could change suddenly. IT-based distribution channels reduce personal contact between the service providers and the customers, which inevitably leads to a complete transformation of traditional bank-customers relationships.

Some analysts argue that Internet banking is revolutionizing the banking industry. Others see the Internet as simply adding another delivery channel for remote banking to existing channels such as automated teller machines (ATMs) and telephone banking. While Internet banking is the subject of a large amount of industry discussion, it remains the case that only a small percentage of banking transactions are done online, whereas all banks currently operating in India offer Internet banking. Nevertheless, the adoption of Internet banking by banks has grown at a very rapid pace, and many banks, including some of the nation's largest institutions, have made the development of services over the Internet a major component of their business and marketing strategy.

A reduction in the percentage of customers visiting banks with an increase in alternative channels of distribution will also minimize the queues in the branches. Increased availability and accessibility of more self-service distribution channels helps bank administration in reducing the expensive branch network and its associate staff overheads. Bank employees and office space that are released in this way may be used for some other profitable ventures. This ultimately leads towards improved customer satisfaction.

## **DEVELOPMENT OF INTERNET BANKING**

Banking, a few years back, was confined to the four walls of branch. With the entry of private banks, having limited number of branches, investment in technology was chosen as alternative to overcome this deficiency. The advent and common use of Internet, leading to ecommerce, forced the banks globally to incorporate e banking.

Indian banks are still far behind their global counter parts. Initially internet banking was launched in India to provide a limited number of services and it was sort of hype in the market. In the past years there has been greater understanding and development towards various services being offered by banks through internet banking. Customer readiness, acceptance & security awareness is also a factor which is improving as usage of internet banking is increasing. Banks have also begun to understand the cost & benefits of internet banking

## **NET BANKING OPPORTUNITIES IN INDIA**

Internet banking is still in nascent stages in India, and there is little or very specific studies available on development and description of internet based banking in India. Numerous factors including competitive cost, customer service, and demographic considerations are motivating banks to evaluate their technology and assess their electronic commerce and Internet banking strategies. Many researchers expect rapid growth in customers using online banking products and services.

The challenge for national banks is to make sure the savings from Internet banking technology more than offset the costs and risks associated with conducting business in cyberspace. Marketing strategies will vary as national banks seek to expand their markets and employ lower cost delivery channels. Examiners will need to understand the strategies used and technologies employed on a bank-by-bank basis to assess the risk. Evaluating a bank's data on the use of their Web sites, may help examiners determine the bank's strategic objectives, how well the bank is meeting its Internet banking product plan, and whether the business is expected to be profitable.

## **MARKETING TECHNIQUES FOR BANKS IN INDIA**

According to Internet Banking; Comptrollers Handbook, 1999, some of the market factors that may drive a bank's strategy includes the following:

### **COMPETITION**

Studies show that competitive pressure is the chief driving force behind use of Internet banking technology, ranking ahead of cost reduction and revenue enhancement, in second and third place respectively. Banks see Internet banking as a way to keep existing customers and attract new ones to the bank.

### **COST EFFICIENCIES**

National banks can deliver banking services on the Internet at transaction costs far than traditional brick-and-mortar branches. The actual costs to execute a transaction will vary depending on the delivery channel used.

### **GEOGRAPHICAL REACH**

Internet banking allows expanded customer contact through increased reach and cost delivery channels. In fact some banks are using the Internet as an alternative delivery channel to reach existing customers and attract new customers.

### **BRANDING**

Relationship building is a strategic priority for banks. Internet banking technology and products can provide a means for banks to develop and maintain an ongoing relationship with their customers by offering easy

access to a broad array of products and services By capitalizing on brand identification and by providing a broad array of financial services, banks hope to build customer loyalty, cross-sell, and enhance business.

### **CUSTOMER DEMOGRAPHICS**

Internet banking allows banks to offer a wide array of options to their banking customers. Some customers will rely on traditional branches to conduct their banking business. For many, this is the most comfortable way for them to transact their banking business. Those customers place a premium on person to-person contact. Other customers are early adopters of new technologies that arrive in the market place. These customers were the first to obtain PCs and the first to employ them in conducting their banking business. The demographics of banking customers will continue to change. The challenge to banks is to understand their customer base and find the right mix of delivery channels to deliver products and services profitably to their various market segments.

### **ADVANTAGES OF INTERNET BANKING**

The most important factors encouraging consumers to use online banking are lower fees followed by reducing paper work and human error, which subsequently minimize disputes. Internet banking offers many benefits to banks and their customers. The main benefits of the banks are cost savings, reaching new segments of population, efficiency, enhancement of banks reputation and better customer service and satisfaction. Internet banking also increases competition within the banking system and also from non-bank financial institution The Internet increases the power of the customer to make price comparisons across suppliers quickly and easily. As a consequence, this pushes prices and margins downward. The Internet poses enormous opportunities for banks, thrifts and other financial services institutions to fundamentally reshape their organizations. The benefits of the Internet permeate an organization—from marketing and sales to back office and operational functions. These benefits have caused financial organizations to view the Internet as more than a marketing communications tool and to begin to successfully employ the Internet as a new channel for their services.

The customer benefits of virtual financial services may be summarized as:

#### **CONVENIENCE**

Unlike your corner bank, online banking sites never close; they're available 24 hours a day, seven days a week and they're only a mouse click away.

#### **UBIQUITY**

If you're out of state or even out of the country when a money problem arises, you can log on instantly to your online bank and take care of business, 24/7.

#### **TRANSACTION SPEED**

Online bank sites generally execute and confirm transactions at or quicker than ATM processing speeds.

#### **EFFICIENCY**

You can access and manage all of your bank accounts, including IRAs, CDs, even securities, from one secure site.

#### **EFFECTIVENESS**

Many online banking sites now offer sophisticated tools, including account aggregation, stock quotes, rate alerts and portfolio managing programs to help you manage all of your assets more effectively.

Banks have a number of advantages as well. They include:

- Decrease Costs:

- Improve Customer Services
- Increase Revenue
- Competitive Pressure
- Replacing Old Branch Systems

### **DISADVANTAGES OF INTERNET BANKING**

Although, electronic banking provides many opportunities for the banks, it is also the case that the current banking services provided through Internet are limited due to security concerns, complexity and technological problems.

### **START-UP MAY TAKE TIME**

In order to register for your bank's online program, you will probably have to provide ID and sign a form at a bank branch. If you and your spouse wish to view and manage your assets together online, one of you may have to sign a durable power of attorney before the bank will display all of your holdings together.

### **LEARNING CURVE**

Banking sites can be difficult to navigate at first. Plan to invest some time and/or read the tutorials in order to become comfortable in your virtual lobby.

### **BANK SITE CHANGES**

Even the largest banks periodically upgrade their online programs, adding new features in unfamiliar places. In some cases, you may have to re-enter account information.

### **THE TRUST FACTOR**

For many people, the biggest hurdle to online banking is learning to trust it. Did transaction go through? Did I push the transfer button once or twice? Best bet: always print the transaction receipt and keep it with your bank records until it shows up on your personal site and/or your bank statement.

### **CONCLUSION**

From the study, it is important to recommend that banks should concentrate more on educating their customers about internet banking and the level of security. Customers who don't use internet banking have very negative perception about the security issues.

1. There is a need felt for the banks to promote online banking services and proper promotional activities are not taking place. Seminars should be conducted to educate people about the benefits of internet banking and to clear their negative perception about it. Print media and newspaper can also be used to educate people about internet banking. It is also recommended that to maintain customers' regularity for visiting the website, information must be furnished in simple text and font. It is very important that customers should easily understand the content on the website. Navigation through internet banking should be simple and easy.
2. E-Banking is a non-reversible phenomenon which will gain more momentum in the coming years. With digitalization of Indian economy and move to turn India into cashless society, e-banking is going to be strengthened. Many banks in India including the State bank of India, HDFC, and ICICI etc. are levying charges on cash transactions above a certain limit. Though this is mainly being done to curb cash withdrawals as many banks are still twirling over cash crunch caused due to demonetization in 2016. But this step is surely going to boost online banking and virtual transactions in India. As can be seen from data given above, be it ATMs deployment or issuance of debit card or credit card, they all witnessed an upward increase indicating their growth in recent years. The young generation has already adapted to this change and perceive this changing banking system more as a convenience mode than a challenge.

3. There is a need for effective complaint management system can increase customers' loyalty and trust on internet banking. Their queries should be solved as soon as possible. Customers who don't use internet banking have more faith on conventional banking system than on internet banking. They have a perception that transferring money through internet banking involves a lot of risk because they lack trust on internet security.
4. Another problem is that they have to face the problem of slow web interface which is not satisfactory from customer point of view. Sometimes network fails in the middle of their transactions, which makes them worried as to whether their transaction got completed or not. It is also concluded that customers lack knowledge about internet banking. The reason for this is that banks are not educating new customers about the benefits of internet banking. Customers also prefer conventional banking because they lack trust on the online security.
5. They have a perception that online transaction is risky and frauds can take place. While on the other hand, the users of internet banking strongly prefer this branchless way of banking. They admit that customers can save time by banking online. There is no need to stand in queues to perform basic transactions. Ease of use is one of the most important factors. However some suggest that navigation through internet banking should be simple and easy.
6. This is also valid for the non users of internet banking. It has been observed that Internet banking is fundamentally changing the banking industry worldwide. Most of the developed nations prefer this mode of banking. The rise of internet banking will redefine business relationships and the most successful banks will be those that can truly strengthen their relationship with customers.

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