

To study the impact of online banking services on retail users

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Abstract—This paper examines how various innovative emerging trends might be attractive to Retail users in terms of improved affordability & accessibility. It then proceeds to study impact of technological evolution in Indian banking industry. This paper seeks to determine how the use of various technology innovations encourage operational self-sufficiency, flexibility and competition in the system and increase the banking standards in India to sustain the challenges of global market. Secondary data collection methodology has been used; a survey has been conducted on of different segments using at least one of electronic banking technology. It was found from the results that national banks, new private banks and foreign banks have showed high efficiency over a period time. It shows that the Retail users are also benefited through technological innovations or electronic delivery channels which have been contributed positively to the provision of Paperless banking services and the growth of the banking industry on attributes such as '24x7 online payment facility,' 'better customer service', 'high quality product', 'faster services'.

Keywords— Online banking, retail users.

I. INTRODUCTION

Banking Industry in India has travelled a long path to assume its present status. It has undergone a major structural transformation after the independence including the innovative banking. The success in transformation has been achieved by overcoming hurdles and impediments, stresses and strains. Thus, the development in the banking industry covers the activities of money lenders with their limited resources and of large scale operations by banks with huge resources and diversified activities like emergence of Electronic banking, innovative trends in banking, and increased use of technology in banking, improved customer service

II. BASIS FOR REFORMS IN THE BANKING SYSTEM

There was a time when the banking system was not well regulated and also security to customers was also not assured Root causes that prompted the initiation of the banking sector reforms are:

- Greater emphasis on directed credit :
- Regulated interest rate structure
- Lack of focus on profitability
- Lack of transparency in the bank's balance sheets
- Lack of competition
- Lack of grasp on the risks involved
- Excessive support from the government
- Excessive regulations on organization's structure
- Eroded productivity and efficiency of public sector banks;

- Continuous loss borne by public sector banks;
- Increasing NPAs
- Deteriorated portfolio quality;
- Poor customer service;
- Obsolete work technology;

The reforms were initiated with an aim to bring about a paradigm shift in the banking industry. In the wake of contemporary challenges in the world economy and other

domestic crisis like adverse balance of payments, increasing fiscal deficits etc., our country too embarked upon economic reforms. As banking sector represents a part of the financial sector, it is necessary to reap the benefits of open economy to provide effective services to meet the economic challenges for the faster economic growth.

III. CONSEQUENCES AFTER LIBERALIZATION OF THE BANKING SECTOR

Technological revolution

Information technology has become an integral part of most of the banks throughout the world. By leveraging this technology, banks are able to develop the necessary management information's system that would aid in taking scientific decisions. Further ,such information system are also being used to analyze the customer needs and innovate their products portfolio accordingly & to enable quicker decision making and that too in a scientific manner ,an online inter connectivity is emerged .this is the period when most of Indian banks have embarked upon the process of computerizing their branches. Information technology has smothered back office maintenance and improved customer service as well. The following are the developments on the technical front:

Payment and settlement systems

To reconstruct the banking operations payment and settlement systems have to be streamlined with the advent of technology there has been a lot of improvement in this aspect and the payment and settlement system has undergone a great transformation .The consolidation, resulted in the EFT (electronic fund transfer),computerized cheque clearing, electronic clearing system &finally we have Real time gross settlement which marks the integration of various payment and settlement systems in an online era

Automated teller Machines

These self service terminals ,which are popularly known as ATMs are cash dispensers ,which enable the customer to withdraw cash even if the bank is closed .The ATM is based on shared payment network system .They are set up an public places like airports ,railway stations ,shopping complexes ,fuel stations etc



Figure 1

Around 88 percent of the cardholders make use of the facility only for cash withdrawal.

A cardholder on an average uses an ATM for 3.5 times a month for cash withdrawal, while he uses the machine around 2.5 times for balance inquiry. -- Rs.55,000 crore dispensed through ATMs in India in fiscal 2003 (Rs.27,000 crore in the previous year) -- 9000 ATMs in India : Growth Rate 60 % per annum -- Rs.1500 crore already spent to set up this infrastructure! -- Rs.2000 - Rs.3000 per day is the cost of maintaining a single ATM.

A MNC is now making 2500 ATMs annually plans to make 10000 from 2005. Number of Transactions per ATM up to 400 per day.

Plastic money

Plastic money is the form of credit cards, debit cards and SMART cards has also entered the Indian markets .Credit cards gives its users a chance to shop goods and services without paying any money instead the bank pays the seller as soon as sale of goods is over and charges the buyer after some days. While debit and credit cards have been in Indian markets for over a decade, the SMART card is relatively new concept and has superior features.

India has come out of self-binding shackles to look "young" again and the enthusiasm shared by the young work force of the country is driving the economy like never-before. In the present day world, no one wants to be bothered by the presence of huge cash in his or her wallet and the Indians are no exceptions. The unprecedented growth in the number of credit card users has stimulated the Indian economy by a significant extent. The arrival of malls, multiplexes, online shopping stores and shopping complexes have contributed to the growth of the use of plastic cards.



Figure 2

Debit card users are growing at a rapid pace in India, closely following the penetration level of the telecom sector. The volume of debit card transactions in India is expected to touch 47 crore per year by 2011, with a cumulative transaction value of over Rs 19,369 crore, on account of the increased interest shown by consumers, a study said.

"The main driver for the growth of debit (cards) in emerging markets is the increasing number of people with access to full banking services. Debit card numbers have risen substantially in markets such as Brazil and India," a study conducted by American payment processing company First Data said, citing estimates released by Euro monitor International. In 2010, there will be 40.7 crore debit card transactions in India, totalling Rs 16,697 crore in transaction value, the study estimates.

With high and industry-favourable figures as above, there is no doubt that the rise in number of credit card providers and users have come of age. With these positively-influencing trends expected to continue in the near and far-future, the writing is on the wall. The credit card industry is likely to soar more than any industry segment. To add to that, easy and continuous payments' structures with each passing day and with every Bank poised to expand its network, the Indian credit card user



Figure 3

community is the biggest beneficiary. The intensifying competition prevalent in the present day Indian credit card market has further fuelled the usage of credit cards in the country like never-before. In an aim to overpower the peers and to sustain and prosper themselves, the Banks and financial institutions have started cutting down the interest rates and offering lucrative deals

Telebanking

In telebanking bankers will ,with the help of dedicated telephone lines ,provide services to their customers .with a telephone call ,customers can get the information they need which may relate to their statement of accounts ,forex rates or any other information relating to their transactions .

The mobile banking subscriber base may be low, but the concept is making inroads into Indian market through micro banks that run on mobile phones using near-field communications (NFC), industry players.

India is the world's second largest mobile market, with over 400 million subscribers, but it still only has 20 million to 25 million registered users for mobile banking, Prathima Rajan, an analyst for Celent, told ZDNet Asia in an e-mail interview. "The active user base is only about 10 percent of the total user base," she said.

Figure 2

Sanjay Tugnait, Accenture's partner and managing director of financial services, concurred: "India has a long way to go insofar as mobile banking is concerned." He noted that in most economies, increase in mobile penetration is followed by growth in mobile banking adoption. In a phone interview with ZDNet Asia, Tugnait said the same will eventually happen in India.

Celent expects the penetration of India's active mobile banking user base to reach 2 percent (25 million) by 2012, up from the current 0.2 percent (2.5 million).

While the subscriber base for mobile banking may be small, such services are gaining popularity in another sector of the market--rural India, through micro banks that run on mobile phones.

According to Anurag Gupta, founder and CTO of A Little World (ALW) and president of Zero Microfinance and Savings Support Foundation (ZMSSF), 3.8 million people in rural India are enjoying the benefits of mobile banking through micro banks. ALW provides mobile banking technology to 22

banks, while ZMSSF is a not-for-profit organization appointed as "business correspondent" for local banks. Zero Mass Foundation (ZMF), also run by Gupta, creates the last-mile operations network in villages, under predefined service agreements with banks, and supports front-end delivery of full-featured transactional services on behalf of banks.

In 2006, India's apex bank--the Reserve Bank of India (RBI)--announced a new policy initiative to allow banks to do business using the "business correspondent" framework. Under this model, third parties such as ZMSSF, conduct business in remote areas on behalf of banks.

ZMSSF has 3.8 million enrolled customers and runs 8,300 micro-bank branches in northeast India and states such as Andhra Pradesh, Orissa and Uttarakhand. Gupta said in a phone interview that the company is the only player to use mobile phone-based micro-banking services. Its competitors use desktop terminals and other handheld devices to deliver micro-banking services.

The reluctant subscriber

In India, mobile banking services are offered at no cost. Despite this, the urban mobile subscriber base of over 170 million has made little attempts to make banking transactions. According to Rajan, there are two main reasons for the low acceptance among urban users. First, these subscribers have accessibility to various alternative modes of transaction and payment such as Internet banking, ATMs and credit cards. Second, security remains a concern.

"Customers are still ambiguous about this new channel, its service offerings and smooth processing," she said.

According to Tugnait, active mobile banking users are typically professionals in the age group of 18 to 30 years, earning around US\$2,094 to US\$6,281 (100,000 to 300,000 rupees) per month. He said much of mobile banking that takes place in India today is push-based, where the bank sends information such as the balance in the user's account and reminders about credit card payments, through SMS.

"There are very few people who actually pay bills and transfer funds using mobile banking," he added.

India's rural markets are also difficult to tap due to high illiteracy, poor infrastructure that inhibits accessibility and lack of technology.

However, Rajan believes the potential for growth is tremendous. "India currently has approximately 35 to 40 percent (373 million) of working population that falls in the age group of 25 to 40 years. This is the most attractive target group for increased spending on mobile and wireless technology," she said, noting that Celent estimates this age group to increase to 400 million by 2015.

Anywhere banking

This service is offered by few banks in India, facilitates the customer to transact from any branch of the bank .The details regarding the customer are available in the central computer linked to the various branches. Banks are looking forward to relationship banking, which establishes a relationship with the customer in such a way that all the bank transactions of the customer --domestic or international --relating to the assets or

liabilities will be undertaken by a single bank. This facility not only the time lags in funds transfer, but also eliminates error prone paper work



Figure 4

Reflecting the growing popularity of Internet banking, the total number of user registrations for Internet banking in India at present stands at over 2 million, according to an IDC report. However, these findings need to be adjusted for dormant users and multiple accounts (a user having accounts with more than one bank).

As per IDC estimates, India has a little less than a million active Internet banking users that might be just 0.096 per cent of the total population, but represent 15 per cent of the Internet user population in India.

In its latest report on the status of e-Banking in India, IDC feels that though the banks have taken the first step, they have got a long way to go before Internet banking becomes a way of life. The prime driver for offering services online is to offer 24x7 availability and convenience to its customers. Beyond that, cost reduction is another major reason.

It is estimated that the cost to the bank per transaction done over the Internet is nearly one eighth of that done through branch banking. So the challenge to all banks will be to expand the Internet banking user base and slowly increase the range of services customers use. How the banks fare in designing, improving, marketing and rolling out services will greatly impact the adoption trends, IDC said.

Looking at the Asian market experience, it seems that Internet banking is here to stay and will be a major channel to acquire and service customers. Markets like Korea and Singapore have nearly 10 per cent of their population banking over the Internet.

Though, these markets are way ahead of India both in terms of Internet penetration and online banking penetration, India is a big potential market and is fast catching up with its Asian counterparts, IDC said in its report.



Protect Your Identity

Banking by phone or online provides you with a secure way to check your balances, transactions, and account history. Having this 24/7 account access means that you can also regularly monitor your account to verify your transactions.

For your added safety, our Online Banking, e-Statements, and Online Bill Pay use multi-factor authentication. All of our online applications also have heightened security measures. Plus with e-Statements, you will stop receiving a mailed statement, so you'll never have to worry about your information falling into the wrong hands. Trust. The feeling is Mutual.

Lessen Your Impact on the Environment

All of our paperless Banking services take the place of traditional paper products, whether they are checks, applications or forms. Do something for yourself and the environment by taking advantage of our paperless options.

As a Business Online Option user, you can elect to receive paperless account statements instead of mailed statements. This is an easy way for businesses to reduce mailbox clutter and increase security. Important financial and identity information for your business is contained within your monthly bank statements.

Figure 4

One of the most common ways identity thieves get this kind of information is through company mail. E-Statements restrict access to this information to only authorized Online Option users within your company

IV. BANK MUTUAL: A GO DIRECT PARTNER

As a financial institution that accepts Social Security or other government benefits, we work with Go Direct to accept federal assistance as a direct deposit

The services offered by the banks through internet can be broadly categorized into three levels:

1. Basic Level-Dissemination of information offered by banks
2. The next level service enables customer to submit their instructions etc
3. The third level service through fully transactional websites allows the customer to carry various transactions like fund transfer, bill payment etc

The traditional banks can offer services through the internet as an addition to the usual services. The following are the major uses of a successful internet banking solution

1. Special interest rates on different account such as savings and CDs
2. Credit cards with lesser charges
3. Round the clock access to the account
4. Checking, payment of bills without any monthly fee, and with concessions on ATM surcharges
5. Service quality and personal care

Apart from card-based payments, the payment modes through internet/mobile phone have been gradually gaining momentum and popularity. The mobile phones gateways are a part of successful growth strategy for the banks. Innovative technological solutions will further enhance the user experience for the electronic payments. With many banks

integrating their payment infrastructure and processing capabilities, the e-payments, in volume and value, will zip ahead faster across the electronic payment highway. Newer technologies, growing internet access, deeply penetrating mobile subscriber base, and most of all rising consumer confidence and convenient delivery and payment models are all set to fuel the e-payment transactions domestically.

Electronic banking is the wave of the future. It provides enormous benefits to consumers in terms of the ease and cost of transactions. The Internet banking is changing the banking industry and is having the major effects on banking associations. 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. E-Banking has been around for some time in the form of automatic teller machines and telephone transactions. More recently, it has been transformed by the Internet, a new delivery channel for banking services that benefits both customers and banks. Access is fast, convenient, and available around the clock, whatever the customer's location and banks can provide services more efficiently and at substantially lower costs. Below mention chart depicts the electronic transactions payment

The ticket-size of the transactions has gone up. The value-wise data shows that the share of electronic transactions has gone up from 80.4% in 2007-08 to 88.3% in 2009-10. However, a look at the volume data concedes that individuals are yet to adopt electronic means for making payments in a big way – which constituted about 35.3% in 2009-10.

Features of Internet banking

1. Fund transfer facility
2. Efficiency in CRM (Customer relationship management)
3. Make Payment of bills
4. Introduces new & innovative products & services.
5. View of balance and statements;
6. Brings door to door services.
7. Have evolutionary trend at a global scenario.
8. Customers can View Direct Debits.

Reasons for the development of the internet banking

1. Better customer access
2. Offering more services
3. Customer loyalty
4. Attract new customer
5. Competitiveness
6. Decrease the erosion of the customer base
7. Increase security by limiting exposure of company's banking information
8. Reduce clutter by storing bank statements in paperless format
9. Make a positive impact on the environment by eliminating the need for paper statements
10. Gain immediate access to bank statements as they become available

Better customer service

Information technology in banking business that is improving at a rapid pace has a more visible impact on customer service. It has not just resulted in product innovation, but also enabling banks to redesign their traditional services into more sophisticated one. Below mention are the ways of building retail customer confidence

- **Brand enhancement programs:** All elements of the customer experience, at both the national and local level, need to be reassessed with continued investments made in customer charters and innovative approaches to marketing the bank's ethos and service offerings.
- **Personalizing banking:** Personalization is a vital element of a successful customer relationship and a cohesive approach to the development of tailored products and services will help to improve brand perception.
- **Create brand ambassadors:** To ensure that the sales force represents the bank's brand there needs to be a continued focus on transparent and sustainable incentive models and an adequate customer relationship model.
- **Embrace online innovation:** Adopting a coherent social media approach will help improve brand perceptions and leverage the benefits of online advocacy

Changing Banking Environment

Moreover, the arrival of the internet and e-commerce in India has altogether changed the business landscapes; this enabled them to expand beyond the frontiers of the country. Accordingly, the expectation and requirement of the business houses are more and the banks are required to act as financial super market with an inside range of products at a lower transaction cost. This scenario forced the banking industry to take up the operations in a large scale manner and facing the competition brought by new private sector banks equipped with latest technology.

Some innovative banking services by different banks

Some Examples;

'Revolve': A personal finance product from American Express Bank :It is a Revolving personal loan wherein the bank issues a fresh refill cheque after each year, based on the satisfactory repayment behavior of the customer ,so that the customer can avail the amount equal to the original loan and without any further documents and proceedings

'café in a bank' concept from ABN –Amro bank: In association with barista coffee co.the bank has set up 'bancafes"at its branches and during evening banking hours(7.30 p.m to 11.p.m) ,it enables customers to relax and enjoy a cup of coffee while they conduct banking transactions

Super suraksha ,from SBI Life:It is group insurance scheme for account holders of SBI .the scheme offers life insurance coverage for an assured sum of rs.50,000 to

1,00,000 to the policyholders between the age group of 20-60 years

Mutual fund sweep account from ICICI bank: A customized and automatic facility, it enables the current account holders of the bank to invest their short term funds into liquid mutual funds. The customer specifies the threshold limit for the account and funds in which the money is to be invested.

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 government of India enacted the IT Act, 2000, which provides legal recognition to electronic transactions and other means of electronic commerce.

V. BRIEF REVIEW OF LITERATURE

Between hidebound marketing ideas, long-standing structural limitations, and complex regulatory requirements, banking by and large lags far behind most other consumer retail industries in developing leading-edge products and services. The industry's rush of consolidation, which in the last decade nearly halved the number of banks in the U.S. to 7,500, has only exacerbated the situation, say financial-services industry experts at Booz Allen Hamilton and the University of Pennsylvania's Wharton School. "In order to make any integration — or at least make the numbers — work properly, you really have to cut a lot of costs," says George Day, a professor of marketing at Wharton, noting that cost-cutting typically translates into a degradation of service.

But innovation is not easy in banking. The industry has to contend with a tangle of regulations acting as "speed bumps" that can slow down product and marketing innovation, says Mr. McKeon. Before introducing new products and sometimes even new marketing programs, banks have to consider such factors as privacy laws, debt security guidelines, and fair lending practices.

In financial services, cost will ultimately serve as the major driver for paperless efforts. Many retail firms have begun exploring paperless branch concepts to eliminate the reams of paper used and stored in branches. Customer correspondence, including paper statements, confirms and prospectuses cost money, and are undervalued by their recipients. Regulatory initiatives may also contribute to paper reduction in 2008: The Securities and Exchange Commission (SEC) proposed a rule in November of 2007 that would reduce the size of mutual fund prospectuses to a "summary prospectus" of between two and four pages, with full prospectus information online. If this initiative takes effect, it alone will save the industry more than US\$65 million annually in printing and postage.

Capital markets firms are understandably looking for a sub-12-month return on investment for current technology initiatives. Regardless of where one falls in the climate change debate,

capital markets sit in the enviable position of establishing a win-win relationship with environmentally friendly positions "Other than the insurance, health care and mortgage industries, few industries could benefit more than financial services from having less paper."

VI. NEED FOR THE STUDY

The new information technology is becoming an important factor in the future development of financial services industry, and especially banking industry. Comparing to the tradition banking services, innovative banking like, e-banking provides a convenient channel for customers to access all the banking services and information from one place to all over the world. This paper concentrates on the impact of innovative banking services on retail user & opportunities of e-banking.

Research method

The study is based on secondary data. The data used in this research are collected through Survey conducted on various sites of banks

VII. RESULTS

Through innovative Banking busy executives, students, and homemakers, can access their account any time and from any part of the world, and do so when you have the time, and not when the bank is open. E-banking is a virtual blessing. It provides them great Convenience - Complete your banking at your convenience, in the comfort of your home or at any place you can access the Net. No more Queues - There are no queues at an online bank. It was found from the results that national banks, new private banks and foreign banks have showed high efficiency over a period time. It shows that the (Retail users) consumer are also benefited through technological innovations or electronic delivery channels which have been contributed positively to the provision of banking services and the growth of the banking industry on attributes such as '24x7 online payment facility,' 'better customer service', 'high quality product', 'faster service

Challenges of online banking

1. Customer may have to face risky transaction & fraud.
2. Failure of power supply cause to break down of system.
3. Loss of heavy income at times of settlement of higher magnitude.
4. Cost involved in training staff may not be profitable especially in times of attrition.
5. Development of an attitude of lethargy

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