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## **GROWTH OF E-BANKING IN INDIA**

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### **Abstract**

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.

**Keywords:** E-banking, electronic banking, banking in India , virtual banking

### **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.

**What is electronic banking / e-banking?**

As the name implies, electronic banking or e-banking involves combination of electronic technology with the banking sector. It relates to provision of banking products and services through electronic delivery channel. Under this system, the banking services are delivered by way of a computer controlled system. E-banking involves providing banking and related service through extensive use of information technology without direct recourse to the bank by the customer. With growing popularity and benefits of e-banking, lot of banks have realized the importance, competition and challenges brought forth with this new technology and are adapting to this new-age banking.

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.

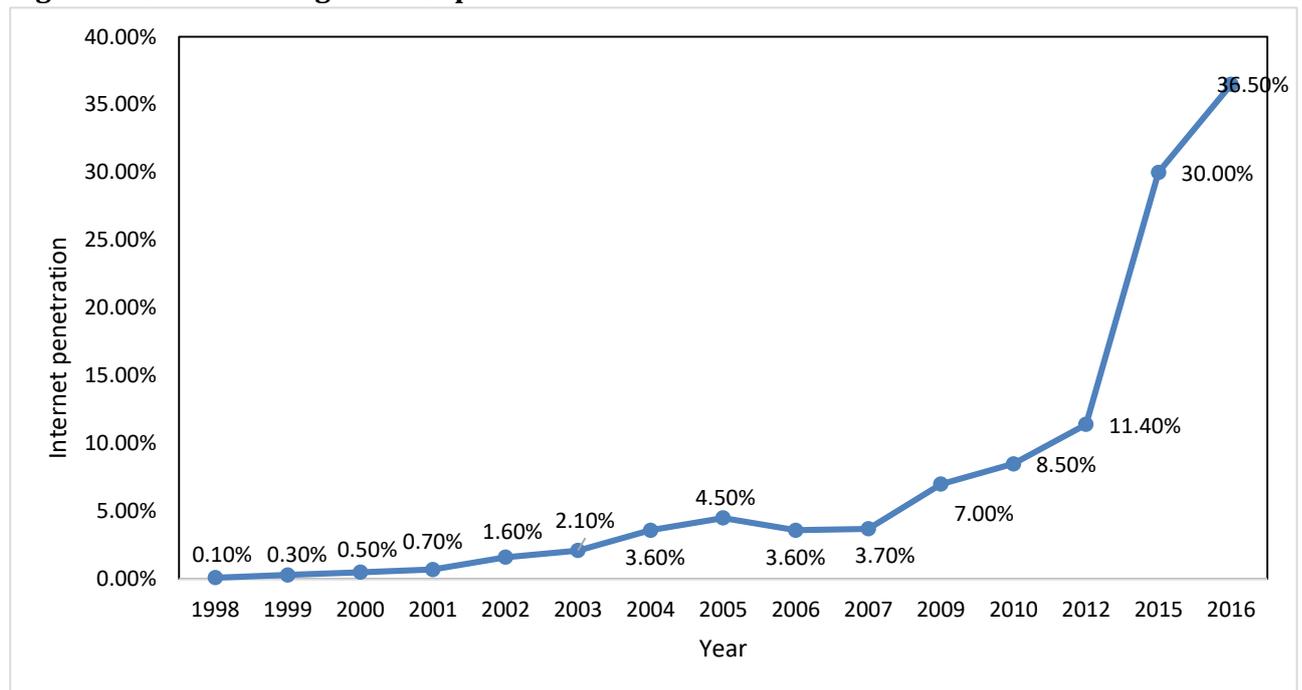
**Difference between traditional banking and e-banking**

The difference between traditional banking and e-banking is given below:

Basis of Difference	Traditional Banking	Electronic Banking
Physical presence	Banking institutions exist physically for offering services to the customers,	Internet banks do not have physical presence as services are provided online.
Time	It consumes a lot of time as customers have to visit banks personally	It does not consume time as customers do not have to visit banks personally.
24*7 facility	People have to visit banks only during the working hours.	Internet banking is available at any time and it provides 24 hours access.
Security threats	Traditional banking does not encounter e-security threats.	Security is one of the problems faced by customers in accessing accounts through internet.
Expensive	Customers have to spend money for visiting banks.	It is relatively cost effective as customers do not have to spend money for visiting banks.
Cost	Physical presence implies a lot of operating and fixed costs.	Such costs are eliminated as the banks do not have physical presence.
Customer Service	In traditional banks, the employees and clerical staff of the bank can attend only few customers at a time.	In online banking, the customers do not have to stand in queues to carry out certain bank transactions.

**Internet: An important driver of electronic banking**

Internet is considered to be an important driver of electronic banking. With the advent of internet, the usage of electronic medium in every field, including banking has increased. Figure 1 given below depicts how internet penetration in India has increased over a period of time.

**Figure 1: Chart showing internet penetration in India**

SOURCE: [www.internetworldstats.com](http://www.internetworldstats.com)

### Features of E-Banking

- 24x 7 banking hour service
- No geographical barrier
- Easy Electronic Fund transfer facility.
- Better efficiency in Customer relationship management.
- Making the Payments of bills like electricity, telephone bills, and mobile recharge.
- It can view of balance of accounts and statements.
- E-banking can bring doorstep services.
- Order mini statements.
- Mobile banking.
- SMS banking services

### E-banking in India

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:

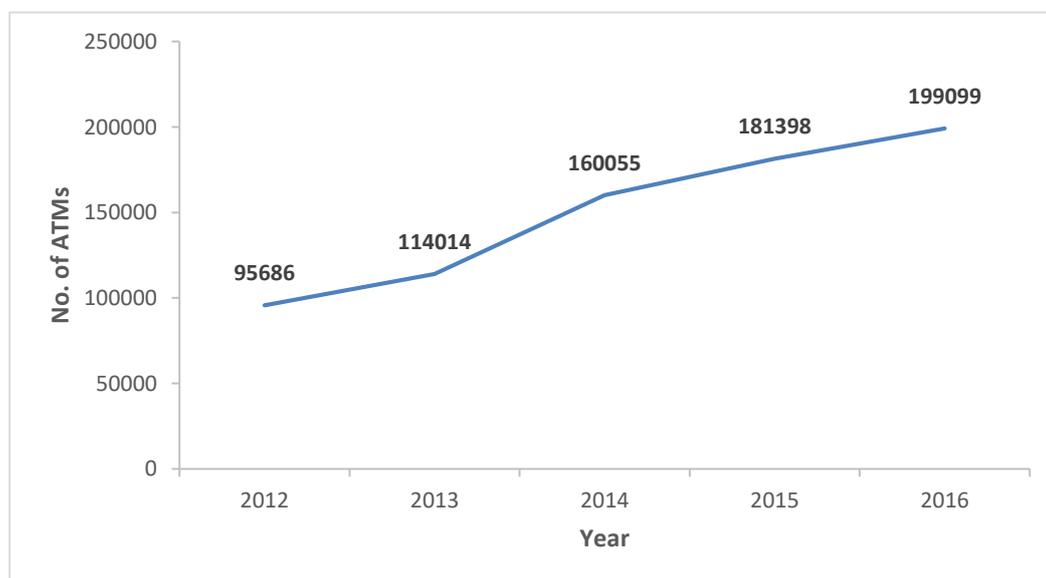
1. Arrival of card- based payments- debit card, credit card- late 1980"s and early 1990"s.
2. Introduction of Electronic Clearing Service (ECS) in late 1990"s
3. Introduction of Electronic Funds Transfer/ Special EFT in the early 2000"s
4. Real Time Gross Settlement (RTGS) was introduced in March 2004
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

Figure 2: Total ATM's deployed by the banks



Source of data: RBI

NEFT - NEFT stands for National Electronic Funds Transfer .It is a nation-wide payment system which enables one-to-one funds transfer. Under NEFT, funds can be transferred electronically between any two NEFT-enabled bank accounts. It was introduced in November 2005 in the country facilitating transfer requirements of individuals /

corporates. Through NEFT fund transfers are settled in hourly batches with 12 settlements occurring between 8:00 AM and 7:00 PM on week days. "Certain other unique features viz. accepting cash for originating transactions, initiating transfer requests without any minimum or maximum amount limitations, facilitating one-way transfers to Nepal, receiving confirmation of the date / time of credit to the account of the beneficiaries, etc., are available in the system"(RBI). The digital market and online payment system in India is growing. AS per RBI data around 928 million transactions worth Rupees 60 trillion were carried through NEFT in 2014-15 as against 661 million transactions of the value of Rupees 44 trillion in the previous year.

Debit Cards – Debit card is a form of plastic money. It offers convenience to the cardholder as they don't have to carry paper cash. Instead of using money, customers can swipe their cards to make purchases. . Debit cards draw money directly from the bank account when they are used. Unlike they don't provide money on credit. Debit cards also enables customers to use ATM machines. Most of the banks in India provide debit cards whenever a customer opens a saving account is open in the bank. Hence, in a way they are easy to obtain. Banks may also advertise something like an ATM-debit card which is same as a debit card. When travelling out of town (or out of the country), debit cards are usually preferred over cash mode they are convenient to carry. They are considered better than credit cards as one cannot spend more money than what is available in the account. Hence they don't let one in debt. Moreover, unlike credit cards no interest payments are involved in its usage. As the money is debited instantly on usage, the cardholder need to have enough balance in the account for making purchases, otherwise transaction would be rejected. Since the amount is drawn promptly, it has more risk involved if something goes wrong with the transaction as bank won't put money back into account. Table 2 shows the number of debit cards issued by scheduled commercial banks as at the end of March from 2011-12 to 2015-16. As is clear there has been an upward increase in the issue of debit cards and the increase between the period 2011-12 and 2015-16 has been more than double.

Table 2: Debit Cards Issued by Scheduled Commercial Banks  
(As at end-March)

(in million)

Year	2011-12	2012-2013	2013-14	2014-15	2015-16
Outstanding no. of debit cards	278.28	331.20	394.42	553.45	661.82

Credit Cards – Credit cards is a form of plastic money which allows the holder to buy goods and services on credit. The cards are issued by the banks, and when the cardholder sweeps the card for its purchase a line of credit is granted to him, as he can make purchases on credit which are to be repaid later to the bank. There are lot of advantages attached to this form of banking. The biggest advantage is the convenience of not carrying cash as

transactions can be conducted with the use of cards. As transactions are accurately recorded, it helps to maintain proper records. Banks also offer additional discounts on usage of credit cards in particular restaurants, stores or online schemes. The main fear among people relating to credit card usage is that it leads to more spending than required. Moreover, there is risk of fraud involved in case the card gets stolen or if the cards information is unknowingly shared. Table 3 shows the number of credit cards issued by scheduled commercial banks as at the end of March from 2011-12 to 2015-16. As is clear there has been an upward increase in the issue of these cards. As at the end of 31 March, 2016 there were around 24.51 million credit cards in circulation. But comparing the number with debit cards, it is clear that debit cards as still the preferred mode than the credit cards in India.

Table 3: Credit Cards Issued by Scheduled Commercial Banks  
(As at end-March)

(in million)

Year	2011-12	2012-2013	2013-14	2014-15	2015-16
Outstanding no. of credit cards	17.65	19.54	19.18	21.11	24.51

### Advantages of e-banking

E-banking has numerous advantages attached to its usage. E-banking provides a platform for anytime, anywhere banking. The customers can log on to their account using websites or cards anytime and from anywhere without being concerned about the bank timings or bothering about the long bank queues. In today's time banking transactions are not bounded by any geographical region or time period. Transactions can be easily executed with a click of mouse which is the biggest advantage of online banking. That, is, why physical banks are slowly and slowly being replaced by 'brick and click institutions' and 'virtual banks'. Moreover, it money and time of the customers as they no longer need to travel all the way to bank for every banking transaction. This new form of banking is considered economical for banking institutions also as lot of money in form operational cost on physical infrastructure and human resources is saved. Customers benefit in form of better and advanced facilities being made available. If online errors or queries are responded speedily and in efficient manner, it helps the banks in maintaining their customer base. With ample time availability because of lowering down of mechanical work, banks are able to focus on providing better and new facilities to the customers. Hence, it also provides banking institutions with an added advantage over their competitors. With the widespread penetration of internet, almost all the banks provide online services. So today, e-banking is not just a marketing tool it's a necessity, which all banks need to have.

### Challenges in adoption of e-banking

E- banking today is a norm rather than an exception for the banks. But despite the fact that it offers number of benefits which make banking convenient and easy for customers, there are some issues and challenges that needs to be addressed .Some of which are stated below:

**Security Risk** – Security risk is the prominent challenge faced by the banks offering e-banking

services. There are still many customers who refuses to opt for e-banking services because they still don't find e-banking or online banking secure. Online banking frauds like phishing, spamming, spy ware, internet theft etc. are still very much prevalent and are a thwart to e-banking expansion. These security problems need to be addressed to win over the confidence of the customers.

**Privacy Risk** – The risk of disclosing the private information of the customers with others. As all the information of the customers are available online, there is always a fear among the customers that their personal information may be shared by the banks with the marketing people.

**Technical difficulties** – As e-banking is all about the use of technology, any technical error can withhold the banking process. The problem of banking websites going down, or jamming problem due to lot of rush on the websites, blocking of the cards, forgetting log-in passwords all these are technical problems which a customer may face in using internet banking.

**Customer Education** – There are lot of users in India who still fear using e-banking services because they are unaware either about their benefits or are unaware about the mode of usage. It is a big challenge for the banks to make to slowly equip all the customers in using e-banking facilities. Though lot of people have shifted to use of ATMs and plastic cards, a lot needs to be done to make EFT and RTGS a popular banking mechanism among Indian users.

## **Conclusion**

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.

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