

# Adoption of Internet Banking: A Study

Prof. B.R. Patil, Principal, Govt. First Grade College, Ranibennur.

## Abstract

Indian financial system in the pre-reform period (i.e., prior to Gulf crisis of 1991), essentially catered to the needs of planned development in a mixed-economy framework where the public sector had a dominant role in economic activity. The strategy of planned economic development required huge development expenditure, which was met through Government's dominance of ownership of banks, automatic monetization of fiscal deficit and subjecting the banking sector to large pre-emptions – both in terms of the statutory holding of Government securities (statutory liquidity ratio, or SLR) and cash reserve ratio (CRR). Besides, there was a complex structure of administered interest rates guided by the social concerns, resulting in cross-subsidization. These not only distorted the interest rate mechanism but also adversely affected the viability and profitability of banks by the end of 1980s. There is perhaps an element of commonality of such a 'repressed' regime in the financial sector of many emerging market economies. It follows that the process of reform of financial sector in most emerging economies also has significant commonalities while being specific to the circumstances of each country. A narration of the broad contours of reform in India would be helpful in appreciating both the commonalities and the differences in our paths of reforms.

Financial system plays an important role in the economic development of the country. Because of the advent of information technology there is a change in the banking sector which has paved way for the introduction of retail electronic payment system and has progressed in the recent years in various countries and India has left no way behind. Implementation of internet in banking system has modernized the banks. E-Banking is knowledge based and mostly scientific in using the electronic devices of the computer resolution through the extensive use of IT without direct resources to the bank by the customers. The objective of the paper is to examine and analyze the progress made by the internet banking in India. The paper also highlights the challenges faced by Indian banks in adoption of technology. The views of the author are depicted as conclusion at the end.

*Keywords: E-Banking, Information Technology, ATM's, RTGS, NEFTs, Debit and Credit Cards.*

## Introduction

Reform measures were initiated and sequenced to create an enabling environment for banks to overcome the external constraints – these were related to administered structure of interest rates, high levels of pre-emption in the form of reserve requirements, and credit allocation to certain sectors. Sequencing of interest rate deregulation has been an important component of the reform process which has imparted greater efficiency to resource allocation. The process has been gradual and predicated upon the institution of prudential regulation for the banking system, market behaviour, financial opening and, above all, the underlying macroeconomic conditions. The interest rates in

the banking system have been largely deregulated except for certain specific classes; these are: savings deposit accounts, non-resident Indian (NRI) deposits, small loans up to Rs.2 lakh and export credit

The banking industry in India has experienced radical changes since independence with the improvements in technology & automation. The banking sector has become highly competitive. To survive & grow in the changing market scenario banks are opting for best in class & latest technologies. Introduction of IT has changed the banking industry from paper & branch banks to digitize & network based banking services. Information technology has become the base of the recent financial sector reforms and has helped the banks in developing leaner and more flexible structure that can respond quickly to the dynamic of a fast changing market. The use of IT in the banking sector has increased beyond ones imagination with features like online loan application, online uploads of documents, net banking online bill payments etc. before couple of decades who would have thought these things could have been possible.

### **Objective:**

This paper seeks

- 1) To study identify the key factors influencing Indian banking industry in adoption of technology.
- 2) To study and suggest ways to mitigate the hurdles faced in E-banking.

### **Internet banking background**

#### **E BANKING A KEY ENABLER AND ITS INFLUENCE**

Despite of various challenges that are prevailing in context with e-banking in India, the following opportunities are motivating the marketers for implementing e-banking:

#### **Increasing Internet Users & Computer Literacy**

To use internet banking it is very important or initial requirement that people should have knowledge about internet technology so that they can easily adopt the internet banking services. The fast increasing internet users in India can be a very big opportunity and banking industry should en-cash this opportunity to attract more internet users to adopt internet banking services.

#### **Initiatives Taken By Government Agencies For Financial Literacy**

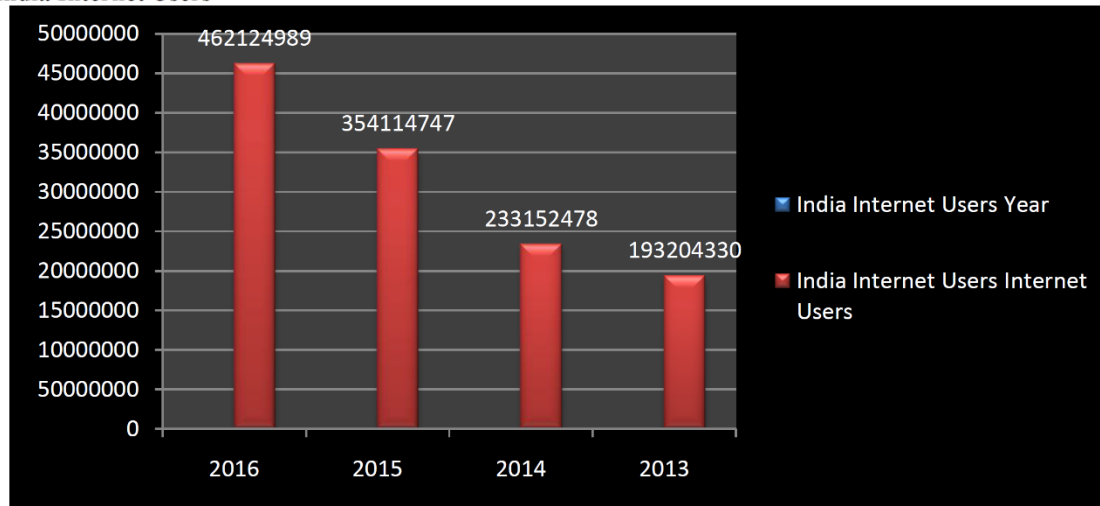
Financial literacy and education play a crucial role in financial inclusion, and inclusive growth. A study reported that there is significant impact of financial literacy on use of internet banking, If customers are not financially educated they will simply avoid using new online services and not change their traditional way of banking, thus banks will not be able to convert users into their new online banking strategies. Various government institutions like RBI, SEBI, IRDA and various other market players have taken a number of initiatives on financial education.

They have prepared a school curriculum along with various topics including internet banking, banking product and services, net banking to educate the school students, college students, working executives, middle income group, home makers, retired personnel, self-help groups etc.

### Competitive Advantage

The benefit of adopting e-banking provides a competitive advantage to the banks over other players. The Implementation of e-banking is beneficial for bank in many ways as it reduces cost to banks, improves customer relation increases the geographical reach of the bank, etc. The benefits of e-banking have become opportunities for the banks to manage their banking business in a better way.

India Internet Users



### Key Risks

**Security Risk:** The problem related to the security has become one of the major concerns for banks. A large group of customers refuses to opt for e-banking facilities due to uncertainty and security concerns. According to the IMAI Report (2006), 43% of internet users are not using internet banking in India because of security concerns. So it's a big challenge for marketers and makes consumers satisfied regarding their security concerns, which may further increase the online banking use.

**The Trust Factor:** Trust is the biggest hurdle to online banking for most of the customers. Conventional banking is preferred by the customers because of lack of trust on the online security. They have a perception that online transaction is risky due to which frauds can take place. While using e-banking facilities lot of questions arises in the mind of customers such as: Did transaction go through? Did I push the transfer button once or twice? Trust is among the significant factors which influence the customers' willingness to engage in a transaction with web merchants

**Customer Awareness:** Awareness among consumers about the e-banking facilities and procedures is still at lower side in Indian scenario. Banks are not able to disseminate proper information about the use, benefits and facility of internet banking. Less awareness of new technologies and their benefits is among one of the most ranked barrier in the development of e-banking

**Privacy risk:** The risk of disclosing private information & fear of identity theft is one of the major factors that inhibit the consumers while opting for internet banking services. Most of the consumers believe that using online banking services make them vulnerable to identity theft. According to the study consumers“ worry about their privacy and feel that bank may invade their privacy by utilizing their information for marketing and other secondary purposes without consent of consumers

**Strengthening the public support:** In developing countries, in the past, most e-finance initiatives have been the result of joint efforts between the private and public sectors. If the public sector does not have the necessary resources to implement the projects it is important that joint efforts between public and private sectors along with the multilateral agencies like the World Bank, be developed to enable public support for e-finance related initiatives.

**Availability of Personnel services:** In present times, banks are to provide several services like social banking with financial possibilities, selective up gradation, computerization and innovative mechanization, better customer services, effective managerial culture, internal supervision and control, adequate profitability, strong organization culture etc. Therefore, banks must be able to provide complete personnel service to the customers who come with expectations.

## **Conclusion**

Finally the study concludes that with the passage of time E-banking has gained the momentum in the Indian context. Most of the banks have implemented E-banking facilities which are beneficial to both i.e., banks and the customers. Though there are many challenges and hurdles in the smooth implementation of E-banking system in India but at the same time E-banking is having a bright future. The use of ATMs, Debit and Credit has become a good source of usage of information technology and has paved a way for Digitalization. As the motto of this study is to prove that safety and security is the main challenge of e-banking in India, we found that even the practical users of feel that safer and secure usage of e-banking is a drawback. As discussed above, if the safety measures are adopted by all the banks, e-banking will be a phenomenal implementation by the citizens of India. It might even transform into a revolutionary service by the banking companies.

## References

1. Aarma, A., & Vensel, V. (2001). Banks' retail customer satisfaction and development of Aladwani, A. (2001). Online banking: A field study of drivers, development challenges, and expectations. *International Journal of Information Management*, 21, 213–225. doi:10.1016/S0268-4012(01)00011-1
2. Burr, W. (1996). Wir informationstechnik die bankorganisation verandern konnte. *Bank und Markt*, 11, 28–31.
3. Constantine, G. (2000). Banks provide internet on ramp. *Hoosier Banker*, Indianapolis, March, USA
4. Dourish, P., & Redmiles, D. (2002). An approach to usable security based on event monitoring and visualization. Paper presented at proceedings of the 2002 workshop on new security paradigms (pp.75-81), New York.
5. D'souza, Errol (2002): 'How Well Have Public Sector Banks Done? A Note', *Economic and Political Weekly*, Vol XXXVII, No 9, pp 867-70.
6. Durkin, M. (2004). In Search of the Internet Banking Customer, Exploring the Use of Decision Styles. *International Journal of Bank Marketing*, 22(7), 484–523. doi:10.1108/02652320410567917
7. Hertzum, M., Juul, N. C., Jorgensen, N., & Norgaard, M. (2004). Usable security and ebanking: Ease of use vis-a-vis security. Technical Report, from www.ruc.dk <http://www.expresscomputeronline.com/20020916/indtrend1.shtml>
8. Infoline, I. (2000). Electronic Fund Transfer and Clearing System. Retrieved 25th February 2008, from [www.indiainfoline.com](http://www.indiainfoline.com)
9. Kohli, S S (2003): 'Indian Banking Sector: Challenges and Opportunities', *Vikalpa*, Vol 28, No 3, July-September, pp 85-89.
10. Liao, S., Shao, Y. P., Wang, H., & Chen, A. (1999). The adoption of virtual banking: An empirical study. *International Journal of Information Management*, 19, 63–74.

doi:10.1016/S0268-4012(98)00047-4

11. Mathew Joseph and Rupa Nitsure (2002): ‘WTO and Indian Banking Sector: The Road Ahead’, Economic and Political Weekly, June 15, pp 2315-22.

12. Mishra, R. (2001). Internet Banking in India. Retrieved 10th June 2008, from [www.banknetindia.com/banking/ibkg.htm](http://www.banknetindia.com/banking/ibkg.htm)

