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"EVOLUTION OF E-BANKING"

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Abstract:

The evolution of e-banking has revolutionized the banking sector, offering convenience, accessibility, and efficiency to both customers and financial institutions. This research delves into the evolution of e-banking, exploring its trajectory alongside the regulatory frameworks set by the Foreign Exchange Management Act (FEMA), the Foreign Exchange Regulation Act (FERA), and the Reserve Bank of India (RBI). By examining the historical context, regulatory changes, and technological advancements, this study aims to provide insights into the regulatory landscape of ebanking in India and its impact on the financial sector.

Introduction:

E-banking, often known as online or electronic banking, is the provision of financial services via electronic channels, such as the internet, mobile applications, ATMs, and electronic data interchange (EDI). Over time, e-banking has seen considerable changes because of legal changes, client needs that have altered, and technical advancements. This paper highlights the regulatory frameworks established by the RBI, FEMA, and FERA while examining the evolution of e-banking in India.

What is E-banking?

E-banking refers to the ability for any user to access his bank's website using a personal computer and a browser and conduct any virtual banking operations. The bank has a web-enabled centralized database within the E-banking system. The menu shows every service that the bank has approved for use on the internet. Any kind of service might the nature of the service determines which interactions are chosen and how. The conventional bank branch model is currently being replaced by an alternate delivery route called the ATM network.

After a bank's branch offices are linked together by satellite or terrestrial connections, each branch will lose its unique physical identity. It would be a global organization that would enable banking at anytime, anyplace, and in any way.

The intranet is the network that provides connectivity to the organization's central office and links its numerous sites. These networks are only available to the organizations who have put them up. One example of an active intranet application is SWIFT.

Historical Overview:

E-banking originated in India in the late 20th century when banks began utilizing electronic channels to provide services including bill payments, account inquiries, and cash transfers. However, FERA, which imposed strict regulations on foreign exchange operations, ruled the regulatory environment throughout this time. The early 1990s saw the liberalization of the Indian economy, which resulted in the 1999 passage of FEMA, which superseded FERA and significantly altered the legal framework governing e-banking.

In India, digital banking started in the late 1990s and early 2000s with simple online services like cash transfers and balance inquiries. With the proliferation of smartphones and increased internet accessibility in the 2010s, the true revolution got underway. In 2010, mobile banking applications became popular, and in 2016, the Unified Payments Interface (UPI) transformed online and mobile payments. Digital banking adoption was expedited by the Indian government's "Digital India" and "Jan Dhan Yojana" efforts. Around the middle of the 2010s, fintech firms began to appear on the market, providing cutting edge loan, wealth management, and payment solutions. The 2020 pandemic underscored the significance of digital banking, prompting established institutions to augment their offerings.

By establishing rules and regulations to guarantee the security of digital transactions and client data, the Reserve Bank of India (RBI) significantly influenced the development of the digital banking industry. Early in the new millennium, India's fast economic expansion and growing desire for more easily available and easy financial services made digital banking necessary.

Evolution of E-Banking:

The evolution of e-banking in India can be categorized into several phases:

The emergence of e-banking as a unique idea occurred in the late 1990s and early 2000s, during which banks gradually introduced online banking platforms and ATM services. However, the reach and usefulness of e-banking services were restricted by regulatory restrictions, especially those imposed by FERA.

Phase of Expansion: Following the passage of FEMA in 1999, e-banking had a sharp rise in popularity, driven by technological developments and legislative changes intended to encourage international investments and electronic transactions. Many online banking services, such as mobile banking, electronic cash transfers, and online bill payment capabilities, were introduced by banks.

Integration Phase: The expansion of e-banking was further accelerated by its integration with other industries, including e-commerce, telecommunications, and digital payments. The banking industry has changed and the consumer experience has improved with the development of cutting-edge goods and services like mobile banking apps, universal payment interfaces (UPIs), and digital wallets.

According to contemporary scenarios, e-banking is reshaping the financial services sector. Therefore, it is essential to comprehend the development of E-banking in its whole. A synopsis of the development of the worldwide e-banking sector and a trend analysis utilizing Document study highlights the main obstacles, enablers, and challenges to the banking industry's swift transformation and adoption of e-banking. Document analysis, as defined by Neuman (1997), is the methodical examination of a specific subject using documents

such as industry and consultancy reports, annual reports, employment records, newspapers, published and unpublished articles, ongoing academic working papers, government white paper reports, and white papers. Broadly speaking, electronic banking refers to the delivery of financial services through channels other than conventional physical branches (Liao et al., 1999).

Potential clients can use electronic banking's financial services in several ways, including:

1. Automated Teller Machines (ATMs)
2. Banking over the phone
3. Internet-Based Banking
4. Online financial services
5. Online Banking via Mobile

E-banking in India: An Electronic Banking Working Group was established by the Reserve Bank of India. Based on the access levels allowed, the group classified the electronic banking products available in India into three categories. They are as follows:

- Information Only System: The bank's website offers general information such as interest rates, branch locations, bank products and their characteristics, and loan and deposit computations.

- Electronic Information Transfer System: This system offers account balances, transaction histories, and account statements, among other customer-specific data.
- Fully Digital Transactional System: This system supports two-way communication. Customers can submit transactions for online updates. This system needs a high level of control and security.

The Indian Context:

Indian banks, on the other hand, have a negligible history of online banking. Online banking was first introduced by ICICI Bank in 1996, and many other banks quickly followed. However, the adoption period of the Internet spanned from 1996 to 1998, whereas use grew only in 1999—because of declining ISP internet fees, rising PC use, and a tech-friendly environment. "We had launched the Internet banking service even before the RBI had formulated its guidelines," says Anup Bagchi, head of ICICI Bank's Internet Banking division. Thankfully, the regulatory bodies were helpful to us because it was a relatively new idea.

Citibank, IndusInd Bank, HDFC Bank, and Times bank (now a part of HDFC Bank) were the first financial institutions to embrace technology in 1999, after ICICI. According to head C N Ram, technological information, HDFC Bank, "We had a very clear vision; rather than being enamoured with the idea of Internet banking, we saw it

more as an add-on service that our customers should progressively adopt." In keeping with this plan, the Net banking feature was first offered to satisfy customer information needs before branching out into financial transfers and third-party transactions.

Regulatory Framework:

FEMA and the RBI are the main regulatory bodies that oversee e-banking in India. Banks that provide e-banking services are impacted by FEMA's regulation of foreign exchange transactions, which includes foreign currency transactions, offshore investments, and cross-border remittances. As the nation's central bank, the RBI is essential to the development of laws and policies pertaining to banking operations, consumer protection, and financial stability. To maintain compliance with prudential rules, cybersecurity standards, and consumer protection guidelines, it supervises the licensing, supervision, and regulation of banks that provide e-banking services.

Impact and Challenges:

The Indian banking industry has been greatly impacted by the development of e-banking and regulatory changes. It has promoted innovation in service delivery, increased financial inclusion, and increased operational efficiency. E-banking does, however, come with hazards when it comes to cybersecurity, data protection, regulatory compliance, and digital literacy. To guarantee the sustained expansion and resilience of e-banking in India, banks, regulators, policymakers, and other stakeholders must work together to address these problems. Lack of digital literacy, spotty internet access, security issues, regulatory compliance, customer service, payment infrastructure, outreach to remote areas, and expensive and time-consuming technical infrastructure are just a few of the obstacles that digital banking adoption must overcome. Fraud and cybersecurity risks are serious issues, and taking strong security precautions is essential. Customer support may be tough, and regulatory compliance and data protection can be difficult. Coordinating among stakeholders is necessary to provide a smooth environment for digital payments.

The case of Vijay Mallya:

Once a ROCKSTAR business magnate, Vijay Mallya is currently wanted on charges of bank debt default of over 9000 Crores, including his now-defunct airline, Kingfisher. In this instance, a group of banks led by the State Bank of India extended loans without performing adequate due diligence, which caused the loan amount to increase to more than nine thousand crores. As a result of Mallya's UB group's default, the Consortium of Banks brought criminal charges against him. Since early 2000, publications have often covered Mallya's business failures, a testament to the financial authorities' lack of knowledge.

The idea proved to be a misadventure, but the loans were utilized to purchase Deccan Airlines and integrate it with Kingfisher Airlines. Additionally, Mallya withheld income tax, PF, and service tax recovery. The Enforcement Directorate (ED) and the Central Bank of India are both looking into the matter, but Mallya escaped to the United Kingdom.

Future of Digital Banking in India

India's digital banking sector is poised for a bright future due to shifting consumer behaviour, government support, and technology advancements. With millions of Indians accessing the internet through smartphones and affordable data plans, the demand for digital banking services has increased. The government's initiatives like Jan Dhan Yojana and Aadhaar identity system have facilitated the opening of bank accounts and financial services for marginalized populations. Artificial intelligence and machine learning are transforming the digital banking landscape, allowing for individualized insights, financial guidance, and product recommendations. Virtual assistants and chatbots are becoming more intelligent, providing real-time

customer service. AI-powered credit rating algorithms can also improve loan choices, increasing credit availability for small businesses and individuals.

Digital banking in India is transforming the way people transfer money, with the Unified Payments Interface (UPI) enabling seamless transactions between banks. This shift towards digital banking can drive economic efficiency, reduce corruption, and promote financial transparency. Blockchain technology can improve security and transparency by reducing fraud and eliminating middlemen. It is being explored for supply chain financing, cross-border transactions, and remittances. The future

of digital banking in India depends on regulatory support, with the Reserve Bank of India developing rules to protect consumer interests and ensure digital transactions' security.

As a result, the landscape of digital banking in India will continue to change due to technical advancement, shifting customer preferences, and regulatory factors. India's digital banking industry is expected to develop significantly due to the country's increasing adoption of mobile technology, the potential for AI and ML to revolutionize financial services, the increase of digital payments, and the investigation of blockchain technology. With the convergence of these developments, digital banking is anticipated to play a crucial role in the nation's financial ecosystem, promoting increased financial inclusivity and economic growth.

Recent case on Paytm bank:

The Reserve Bank of India (RBI) has provided clarification about the measures taken against Paytm Payments Bank, indicating that the bank's noncompliance with regulations despite warnings was the reason behind the crackdown. After allowing the business enough time to address its non-compliance problems, the decision was reached to limit new deposits. According to RBI Governor Shakti Kanta Das, corrective action is encouraged and regulated firms are given enough time to comply with regulations. But if these initiatives fail, the RBI turns to enforcing commercial or supervisory limitations. The opening of hundreds of thousands of accounts at Paytm Payments Bank without the required identity has raised concerns. There are rumours that Paytm's license may be revoked because of the regulatory crackdown. With 330 million digital wallet accounts, Paytm is a popular choice for a variety of financial transactions in India. The Paytm app is still fully functional, and services are unaffected, the business assures consumers and merchant partners.

Conclusion:

Legislative framework modifications, consumer preferences, and technological advancements have all had an impact on the growth of e-banking in India. Regulations under the FEMA, FERA, and RBI have allowed for the rise of e-banking while preserving consumer protection, financial stability, and integrity. In the future, the Indian banking sector will need to maintain its innovativeness, remain flexible with regulations, and practice sound risk management to navigate the rapidly evolving ebanking landscape and advance sustainable and fair development.