

A STUDY OF CONTRIBUTION OF E-BANKING IN ECONOMIC DEVELOPMENT OF INDIA

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Abstract

E-banking is now a global phenomenon. The developed country as a part and parcel of their economy is now using e-banking. Initiatives are taken by the government and Reserve Bank of India (RBI) to facilitate the development of these new generation banks. Though ICICI bank, e-banking facilities are initiated under the brand name of “Infinity”. On the recommendation of the committee on technology upgrading in banking sector headed by M.R. Srinivasan, the RBI has issued a guideline in June 2001 on three major areas of Internet banking. Economic growth is a fundamental requirement for the development of a country. GIZ advice its partners to develop the situation for private sector promotion, and local poverty-oriented financial system to give everyone an opportunity to share the benefit of economic growth. The presence of increased middle income group in rural area demands credit facilities on par with urban people and providing ample opportunities to the banks to extend credit to non-farm sector also. Indian P.M- Mr. Narendra Modi has initiated a project estimated at INR 20,000 crores to build a broadband highway connecting 2.5 lakh panchayats across the country. This infrastructure would help the rural India to connect with the urban India. Indian banks have embraced innovative banking technologies and e-banking services in recent years. At the same time, e-banking acceptance depends probably on bank service quality, customer preferences and satisfaction.

Keywords: E-banking, Economic Development, Customer Satisfaction, Opportunities.

Introduction

E-banking is now a global phenomenon. The developed country as a part and parcel of their economy is now using e-banking. A strong banking industry is an important in every country and can have a significant affect in supporting economic development through efficient financial services. Apart from the developed countries, the developing countries are experiencing particularly strong growth in e-banking.

In the early 1990s, the Indian government embarked on the policy of liberalization. The government allowed new private banks to enter in the market. By licensing a small number of private banks, which came to be known as new generation tech-savvy banks, the government introduced greater competition in the Indian banking system. Several initiatives have also been taken by the government as well as the Reserve Bank of India (RBI) to facilitate the development of these new generation banks. Though ICICI bank initiated the e-banking facilities under the brand name of “Infinity” as early as 1997 however it got its due respect in the year 2000 when the government of India enacted the IT act 2000 with effect from 17 October 2000. This proactive action has provided legal recognition and security to electronic transaction and other means of electronic commerce for the Indian banking system and paved the way for the emergence and growth of e-banking in India. On the recommendation of the committee on technology upgrading in banking sector headed by M.R. Srinivasan, the RBI has issued a guideline in June 2001 on three major areas of Internet banking, i.e., (i) technology and security issues, (ii) legal issues and (iii) regulatory and supervisory issues. These areas are selected in such a manner that the problems faced by banks and their customers can be minimized to the maximum possible extent. The group recommended certain guidelines for the smooth and proper working of Internet banking.

India is one of the top 10 economies in the world, where the banking sector has tremendous potential to grow. The last decade saw customers embracing ATM, internet and mobile banking. India’s banking sector is currently valued at Rs.81 trillion (US\$1.31 trillion). It has the potential to become the fifth largest banking industry in the world by 2020 and the third largest by 2025, according to an industry report. The face of Indian banking has changed over the years. Banks are now reaching out

to the masses with technology to facilitate greater ease of communication, and transactions are carried out through the internet and mobile devices.

With the rapid development of technology, internet plays a significant role in changing the banking scenario. It provides an online platform for various banking transactions through which it offers various services like online payment, online fund transfer, online stock trading and online shopping, etc. The use of internet as a delivery channel for banking services is increasing widely in banking sector. E-banking facilitates enable financial institution and customers to access their accounts, transactions and getting information on financial products and services. Now a day's most of the commercial banks have launched various services through e-banking including latest service like opening online saving accounts and demand for the services is increasing rapidly. The concept of e-banking is fairly a new concept in India as compared to its development counterparts.

“In recent year's use of electronic and e-banking is considered the most important aspect of e-commerce environment”.

What is E-banking?

Online banking, also known as internet banking, e-banking or virtual banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website.

Today, many banks are internet-only institutions. These "virtual banks" have lower overhead costs than their brick-and-mortar counterparts. In the United States, many online banks are insured by the Federal Deposit Insurance Corporation (FDIC) and can offer the same level of protection for the customers' funds as traditional banks. ^[1]

Benefits of E-banking

Using e-banking is beneficial for both customers and banks. The benefits of a adopting e- banking are mentioned below:

- 1) Benefits for Customers
 - a) Less waiting time.
 - b) Freedom and access to bank anytime and anywhere.
 - c) 24*7 Availability.
 - d) Self-service channel.
- 2) Benefits for Banks
 - a) Increased profitability.
 - b) Reach where there is no branch.
 - c) Improve customer relationship.
 - d) Eco- friendly image.

Internet user in India

Table Frequency of Internet user in Banks (millions)

Year	Rural Users	Urban Users
2015	107.56	194.77
2019	227.01	409.72
2021	322.77	502.53
2022	331.81	493.08

Source:<https://www.statista.com/statistics/report-content/statistic/1196721>

The availability of internet is the prime requirement for banks. However, a large gap exists in operation and function of bank mechanisms. Today, also cash transactions regarded as the most convenient means of payment in place of non-cash transactions.

Financial sector reform initiated in early 1990s stressed to adopt the computerization of banking services in order to improve efficiency of banking services. Later on Narasimham committee (1991) recommended the necessity for computerization in the Indian banking system. It is important to know that 98 percent of public sector banks and 100 percent of private banks are fully computerized.

Top 10 banks in India providing Internet services to their customers

Rank	Name of the Bank
1	State Bank of India
2	HDFC Bank
3	Punjab National Bank
4	Union Bank of India
5	Canara Bank
6	Axis Bank
7	Bank of Baroda
8	ICICI Bank
9	Kotak Mahindra Bank
10	Bank of India

Source: Secondary data (www.deal4loans.com)

E-Banking and Economic Development

Economic growth is a fundamental requirement for the development of a country. For companies to invest and economy to grow, stable environment, efficient institutions, functioning markets and access to sustainable financial services are all required. GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit, the German Federal Enterprise for International Cooperation) assist the partner countries in improving their economic framework conditions, removing bureaucratic obstacles and establishing suitable promotional structures.

Through dialogue between public and private actors, GIZ develop comparative advantages and initiate multi sector economic flow. GIZ advice on economic policy and work with our partners to develop the situation for private sector promotion, and local poverty- oriented financial system to give everyone an opportunity to share the benefit of economic growth. GIZ realize that economic growth is created by people. This is the way we began with viable vocational training in order to enhance the right competences for dynamic economic development tailored to needs and with strong practical relevance. Integrating as many population groups have possible into the economy is the only way to ensure that growth has a broad effect and is sustainable. With its know-how, GIZ makes an active contribution to the full realization of its partner's economic potential in a way which is not only profitable and also socially and ecologically acceptable GIZ create opportunities for all.

Support of Financial Sector in Economic Development

The growth of every economy depends on various sectors like agriculture, manufacturing, education, Finance, etc. In India, after implementation of new economic policy in 1991, financial sector observed as a key element for the growth of the economy. [2] The government has also taken various steps towards this like financial inclusion, rural banking, etc. According to Indian brand equity foundation, the financial sector in India is primarily a banking sector with commercial banks covering more than 60 percent of the total financial assets held by the financial system. The resultant of above fast pace financial sector growth, Indian banking sector has observed significant reforms in recent times, like Automated Teller Machine (ATM), Green channels, Internet banking, mobile banking, etc. focused toward maximum profit, minimum cost and above all maximum satisfaction of the customer.

Rural India – Banking opportunities:

There is a positive correlation between infrastructure development & aggregate agricultural productivity. Rural infrastructure such as irrigation water shed development, electrification, roads, markets, credit institutions, agriculture research & extension etc. together plays key role in determining the improvement of productivity. In the recent years, the development of roads connecting to villages is one of the positive factors which eventually blurring the rural and urban divides to a greater extent. A quiet revolution is taking place in rural India where economic growth is not just creating the rich but also providing ample opportunities to serve the financially excluded. Rural Banking is now a large opportunity and will be captured those who remove the current barriers of profitable scale.

Rural financial services are the fastest growing segment on account of large untapped potential driven by the very low penetration in rural market. Today, only around 41% of rural households have formal savings accounts and 20% alone have access to credit from banking system. Hitherto, major share of bank credit flown to farm sector that too production loans. The presence of increased middle income group in rural area demands credit facilities on par with urban people and providing ample opportunities to the banks to extend credit to non-farm sector also.

Challenges in adoption of E-banking

E-banking is facing following challenges in Indian banking industry:

- 1) E-banking is not safe and secures all the time. There may be loss of data due to technical defaults.
- 2) E-banks are facing business challenges because they cannot think of profit due to the service charges are very low.
- 3) There is lack of preparedness both on part of banks and customers in the adoption of new technological changes.
- 4) There is lack of proper infrastructure for the installation of e-delivery channels.

E-Banking Industry

E-banking is referred as online banking or virtual banking. It is an electronic payment that enables people to conduct financial transactions online operated by an institution. The term e- banking includes ATMs, Tele-banking, Mobile banking, ECS, Real Gross Settlement System (RTGS), National Electronic Fund Transfer(NEFT), Credit Cards, Debit Cards, Smart Cards, etc.

At present the E- Banking system provides following services:

- 1) Inquiry about the information of account.
- 2) Card accounts transfer.
- 3) Bank securities accounts transfer
- 4) The transaction of foreign exchange
- 5) Account management
- 6) Reporting of loss account

Future of E-banking

All the major banks are trying to promote online transactions in the country including the rural parts of the country. Being a huge fan of e-Governance, Indian Prime Minister- Mr. Narendra Modi has initiated a project estimated at INR 20,000 crores to build a broadband highway connecting 2.5 lakh panchayats across the country. Once fully set up, this infrastructure would help the rural India connect with the urban India while boosting the rate of online transactions in the country. Despite the rosy predictions and increased corporate activity, the Indian E-banking system is facing many hurdles. The problems include operational risks, security risks, system architecture risks, reputational risks and legal risks.

Conclusion

The banking industry plays a significant role in supporting economic development through efficient financial services. Indian banks have embraced innovative banking technologies and e-banking services in recent years. Almost all banks have invested in expanding and improving the Information Technology systems and a number of new e-banking services have been developed.

At the same time, e-banking acceptance depends probably on bank service quality, customer preferences and satisfaction.

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