

Impact of online banking transactions in India

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ABSTRACT

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. The online banking system will typically connect to or be part of the core banking system operated by a bank and is in contrast to branch banking which was the traditional way customers accessed banking services. The Internet Banking is changing the banking industry and is having the major effects on banking relationships. Internet Banking involves delivery of banking products and services. At present many of the banks around the world have web presence in form of ATMs, Internet Banking, Support services etc. In the world of banking, the development in information technology has an enormous effect on development of more flexible payment methods and more- user friendly banking services. Electronic Banking services are new and the development and diffusion of these technologies by financial institutions is expected to result in more efficient banking system.

Keywords: Online Banking, Financial Institution, ATM, Mobile Banking etc.

INTRODUCTION

Banking in India originated in the last decades of the 18th century. The oldest bank in existence in India is the State Bank of India a government-owned bank that traces its origins back to June 1806 and that is the largest commercial bank in the country. Central banking is the responsibility of the Reserve Bank of India 1935 formally took over these responsibilities from the then Imperial Bank of India, relegating it to commercial banking functions. After India's independence in 1947, the Reserve Bank was nationalized and given broader powers. In 1969 the government nationalized the 14 largest commercial banks; the government nationalized the six next largest in 1980.

Currently, India has 96 scheduled commercial banks (SCBs) - 27 public sector banks (that is with the Government of India holding a stake), 31 private banks (these do not have government stake; they may be publicly listed and traded on stock exchanges) and 38 foreign banks. They have a combined network of over 53,000 branches and 17,000 ATMs. According to a report by ICRA Limited, a rating agency, the public sector banks hold over 75 percent of total assets of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively.

Definition of E-Banking

E-Banking is defined as the automated delivery of new and traditional banking products and services directly to customers through electronic, interactive communication channels, E-banking includes the systems that enable financial institution customers, individuals of businesses, to access accounts, transact business, or obtain information on financial products and services through a public or private network, including the Internet. Customers access e-banking services using an intelligent electronic device, such as a personal computer, personal digital assistant, automated teller machine, Touch tone telephone. While the risks and controls are similar for the various e-banking access channels, this booklet focuses specifically on Internet-based services.

What is Internet Banking

Internet Banking refers to the banking services provided by the banks over the internet. Some of these services include paying of bills, funds transfer, viewing account statement, etc. Banks also deliver their latest products and services over the internet. Internet banking is performed through a computer system or similar devices that can connect to the banking site via the internet. Nowadays, you can also use internet banking on your mobile phones using a Wi-Fi or 3G connection. With the ease of availability of cyber cafes in the cities, it has become quite popular.

Banking is now no more limited in going and visiting the bank in person for various purposes like depositing and withdrawing money, requesting for account statement, stop a payment, etc. You can do all these tasks and many more using the online services offered by the banks. You can also keep a track of your account transactions and balance all the time. Now getting passbooks updated to know the total account balance is a matter of past. The overall objective of the present study is to analysis the role of Internet banking in India.

REVIEW OF LITERATURE

Till date limited efforts have been made to study the impact of online banking services in Indian banking. The existing literature has been reviewed for understanding different concepts and variables related to internet banking as well as to find out the research gap for the present study. A lot of discussion has appeared in various researches pertaining to various dimensions that affect the adoption of internet banking and in measuring its impact on customer satisfaction and business performance. Therefore, in order to concretise the research gap for the present study, the related literature has been reviewed as under:- As already stated, online banking primarily introduced in the early 1990's, uses the computer technology to give users the ability to manage their transactions on their own more quickly and efficiently from anywhere around the world by just a click of the mouse. Tulani et al., (2009) examined the extent of adoption and usage of internet banking by commercial banks in Zimbabwe and found people using internet banking for checking account balances, payment of bills and fund transfer.

They also found perceived benefits of using internet banking as cost reduction, increased loyalty and attracting new customers. Singhal and Padhmanabhan (2008) determine utility request, security, utility transaction, ticket booking and fund transfer as the factors influencing users to adopt e-banking channel. Quereshi et al., (2008) evaluate factors that manipulate the nature of customer's towards online banking and found almost 50% of the clients shifted from traditional banking to online banking system because of perceived usefulness, security and privacy provided by online banks. Likewise, Azouzi (2009) also examined the adoption of electronic banking in Tunisia and found majority of respondents (95%) having an access to internet, but only few of them using it as a primary banking channel. Auta (2007) empirically examines the impact of e-banking in Nigeria's economy and found customers are satisfied with e-banking system which provides convenience and flexible advantages such as easy transfer, speedy transfer, less cost and time saving benefits.

Lichenstein and Williamson (2006) also provide an understanding of how and why specific factors affect the consumer decision about internet banking in an Australian context and found convenience as the main motivator for consumers to bank online. Flavian et al., (2006) analysed how perceptions of consumers about traditional bank influence their decision to adopt the services offered by the same bank on the internet and found consumer trust in a traditional bank as well as income, age and sex of the respondents as the major factors that influence consumer decision to work with the same bank via the internet. Thus, online banking service has recently become very effective offering sophisticated tools, including account aggregation, stock quotes, rate alerts and portfolio managing programmes to help their customers manage all their assets more effectively and on time.

E-Service Quality and Internet Banking

As the channels of service delivery shifted from traditional to electronic, the need for a scale to measure the e-service quality was felt. Researchers have developed many scales to evaluate Web sites. A rating scale for websites, called WebQual, was created by Lociacono et al. [7]. This scale was based on twelve dimensions namely: informational fit to task, interaction, trust, response time, design, intuitiveness, visual appeal, innovativeness, flow, emotional appeal, integrated communication, business processes, and substitutability. Another nine-item scale, called SITEQUAL was developed by Yoo and Donthu for measuring site quality on four dimensions: ease of use, aesthetic design, processing speed, and security. Wolfinger et al. [8] develop eTailQ, a 14-item scale containing four factors: Web site design, reliability/fulfilment, privacy/security, and customer service. Many researchers have tried to use the conventional e-service quality models for the measurement of service quality in internet banking. Models like the one developed by zeithaml et al. [12] namely a four item SITEQUAL scale, which focused mainly on web site characteristics like ease of use, aesthetic design, and security and processing speed. Zeithaml et al. [12] also developed an e-service quality measure (e-SQ) consisting of five dimensions: information availability, ease of use, privacy/security, graphic style, reliability. The above scale was refined by Parasuraman et al. [9], and reduced the above mentioned five dimensions into four, which are as below: efficiency, fulfilment, availability, privacy. They further added another dimension to this scale and created an e-recovery service quality scale (E-RecSQUAL) consisting of 11 items on three dimensions: Responsiveness, Compensation, and Contact. Lociacono et al. [7] introduced a 12-dimension scale namely WebQual with the following dimensions: informational fit-to-task, tailored communication, and trust, and response time, ease of understanding, intuitive operation,

visual appeal, innovativeness, emotional appeal, consistent image, on-line completeness, and relative advantage. Josef et al. studied the impact of these innovative technologies as ATM, telephone and Internet on banking services.

They found six primary dimensions of e-banking service quality namely: convenience, accuracy, efficiency, queue management, accessibility, and customization, feedback and complaint management. Also, 87 percent of the Internet banking customers was found to be asking for online possibility of diverse financial transactions, including electronic and automatic payment of their accounts and bills, receiving online monthly account balance, and purchase of shares and insurance policy. Saha et al. [13] studied the relationship between online services and customer satisfaction in Internet banking and found a significant association between the online service quality dimensions fulfilment and efficiency and customer satisfaction with electronic service quality. Further, Saha et al. [13] identified nine service quality dimensions in internet banking which are efficiency, reliability, responsiveness, fulfilment, privacy, communications, personalization, technology update and logistic/technical equipment. The first five dimensions were tested as a core dimensions in internet banking. Communication and personalization were identified as another two significant service quality dimensions in internet banking. Nupur [14] investigated the impact of variables of e-banking on customer satisfaction in Bangladesh and emphasized that reliability, responsiveness, assurance, empathy and tangibles are the core service quality dimensions for customer satisfaction in e-banking.

E-SERVICE QUALITY AND CUSTOMER SATISFACTION

The study of satisfaction dates back to research of Cardozo and Howard and Sheth. These studies are considered to be the starting point of scientific interest in satisfaction, its origin and consequences. Gronroos believes that Customer satisfaction is a phenomenon of particular importance in the evaluation process of a shopping, consumption, or product or service usage experience and is therefore vital in long term consumer responses. Oliver defined customer satisfaction as a judgment that a product or service feature, or the product or service itself, provide (or is providing) a pleasurable level of consumption related fulfilment, including levels of under or over fulfilment. According to Muffatto et al. Customer satisfaction is considered to be one of the most important competitive factors and as the best indicator of a company's profitability. Additionally, customer satisfaction will impel company to improve their reputation and image, to reduce customer defection, and enhance attention towards the customer needs.

This will lead to creation of barriers to switching, and improvement in business relationships with their customers. Service quality has been recognized as a dominant factor in keeping competitive advantage and sustaining satisfying relationships with customers. Service quality is one of the factors contributing to customers' satisfaction judgments. Service quality in banking websites may boost customer satisfaction because in internet banking a customer can access a variety of financial transaction. Ma et al. analysed the factors of website quality that could influence e-banking customer satisfaction in the Chinese commercial banking industry. They found that e-service quality dimension: efficiency, interactivity, security, information, ease of use and content were the key factors to affect customer satisfaction in the e-banking service. Ariff et al. examined the relationship and impact of e-service quality and e-Satisfaction on e-Loyalty in internet banking. They used the modified version of E--S-QUAL-RecS-QUAL instrument to determine e-SQ for internet banking service of a commercial bank in Malaysia. They found that assurance/fulfilment, efficiency-system availability; privacy, contact-responsiveness and website aesthetics and guide are the e-SQ dimensions for the internet banking service. Website aesthetics and Guide, Efficiency-System availability and Contact-Responsiveness were having a positive impact on the E-Satisfaction and E-Satisfaction was positively significant to e-Loyalty. Ibok et al. studied the major determinants of customer satisfaction in internet banking services.

They determined five major service quality dimensions that affect the customer satisfaction in Nigeria namely account access, account use, privacy and security, account control, cost/time effectiveness and ease. Awamleh et al., evaluated websites of foreign and local banks in the United Arab Emirates using the Diniz model to and ascertained the factors that influence customer satisfaction of the internet banking service. The factors that influence customer satisfaction were recognized as: convenience, independence, and security of internet banking transactions. Sakhaei et al. [15], investigated the service quality indexes in Internet Banking. They studied the impact of service quality factors of Internet Banking on customer satisfaction in Iran. This study revealed that the Six service quality dimensions namely reliability, efficiency, responsiveness, fulfilment, security/privacy and website design have a meaningful relationship with customer satisfaction in Internet Banking and were the proposed indicators to measure customer satisfaction with service quality customer.

Riquelme et al. studied the attributes of e-service quality which predict customer satisfaction, tried to determine if satisfied customers use more online banking features than less satisfied customers and also tried to identify characteristics of less satisfied customers. They found that satisfaction could be generated by improving courtesy, content, timeliness and product and services offered. The services offered being the most important factor in driving internet banking satisfaction. The

findings of the study did not support any relation between more usage of services and satisfaction; neither did it support the association between more usage and satisfaction [16]. Zavareh et al. assessed the use of E-SERVQUAL scale to construct e-Service Quality (e-SQ) for internet banking services. He also attempted to examine the effect of e-SQ on eCustomer Satisfaction.

The study findings revealed that efficiency and reliability, fulfilment, security/trust, site aesthetics, responsiveness/contact, and ease of use constitute e-SQ for internet banking services in Iran and signified that security/trust, site aesthetics, and ease of use of the internet banking services have positive effects on eCustomer Satisfaction and also revealed that a significantly positive relationship exists between e-SQ and e-Customer Satisfaction in the internet banking [17-20]. Kayabaşı et al. investigated the structural relationships among electronic service quality, total service quality and total satisfaction. They found a high level positive correlation between the perception of total service quality and the perception of total satisfaction. Responsiveness and security were the dimensions which have the highest effect on eservice quality perception which in turn highly affected the total satisfaction perception.

WAYS IN WHICH INTERNET BANKING IS INFLUENCING MODERN LIVES

Easy to Set-up

Internet banking permits to easily set up your online accounts with only prior bank account information. You can use your computer or even smart phones for creating your online accounts. Once it is done, you can easily access your account and transfer money for your loved ones from anywhere and at anytime.

Secure

Online banking allows you to conduct your bank transactions safely and securely. You can monitor and keep track of all your financial transactions and make sure your balance information is correct. As the technology is evolving, experts are coming up with the new idea that will completely replace passwords with thumb impression while using internet banking services. This gives more accurate and secure transactions and thus, can help you in detecting fraudulent transactions easily.

Convenience

Internet banking gives you a platform for paying your electric bills, telephone bills and transfer funds. Making transactions right from your door step or offices are easy with single payments or recurring payments. Keeping track of your accounts is easier and also you do not have to keep the receipts of all the bills as you can easily view your transactions.

Services

Internet banking acts as a great medium for the banks to endorse their products and services. These services include financial planning, investment options, loan calculators and many others as simple applications on the bank's website. All these services are available 24/7 i.e., you can avail these services at anytime, anywhere and even when the banks are closed. Some services also offer features like balance alerts, so that you can monitor you account and avoid late fees. They also provide easy access for online statements.

Cost-Effective

For the bankers, internet banking facility is cost-effective. Administrative and paper related works which occupies not only office spaces but as well creates job opportunities have been cut down with the introduction of internet banking. Though it has turned out to be disadvantage for employees, it has none the less benefited the banks. Moreover, banks can easily promote their services to n number of customers at the same time. The profits gained by the banks are increasing due to these factors. This has enabled them to offer acceptable interest rates on credit cards and savings bank accounts.

Fast and Efficient

Through internet banking, fund transfer for both national and international has become faster and convenient. Nowadays, you can transfer your money within short time efficiently. You can carry out stock trading and other investments and also manage several accounts easily. All these factors have created online banking ideal for all those who make number of financial transactions every day.

Advantages of Internet Banking

Internet Banking has several advantages over traditional one which makes operating an account simple and convenient. It allows you to conduct various transactions using the bank's website and offers several advantages. Some of the advantages of internet banking are:

- Online account is simple to open and easy to operate.
- It is quite convenient as you can easily pay your bills, can transfer funds between accounts, etc. Now you do not have to stand in a queue to pay off your bills; also you do not have to keep receipts of all the bills as you can now easily view your transactions.
- It is available all the time, i.e. 24x7. You can perform your tasks from anywhere and at any time; even in night when the bank is closed or on holidays. The only thing you need to have is an active internet connection.
- It is fast and efficient. Funds get transferred from one account to the other very fast. You can also manage several accounts easily through internet banking.
- Through Internet banking, you can keep an eye on your transactions and account balance all the time. This facility also keeps your account safe. This means that by the ease of monitoring your account at anytime, you can get to know about any fraudulent activity or threat to your account before it can pose your account to severe damage.

Disadvantages of Internet Banking

Though there are many advantages of internet banking, but nothing comes without disadvantages and everything has its pros and cons; same is with internet banking. It also has some disadvantages which must be taken care of. The disadvantages of online banking include the following:

- Understanding the usage of internet banking might be difficult for a beginner at the first go. Though there are some sites which offer a demo on how to access online accounts, but not all banks offer this facility. So, a person who is new, might face some difficulty.
- You cannot have access to online banking if you don't have an internet connection; thus without the availability of internet access, it may not be useful.
- Security of transactions is a big issue. Your account information might get hacked by unauthorized people over the internet.
- Password security is a must. After receiving your password, do change it and memorize it otherwise your account may be misused by someone who gets to know your password inadvertently.
- You cannot use it, in case, the bank's server is down.
- Another issue is that sometimes it becomes difficult to note whether your transaction was successful or not. It may be due to the loss of net connectivity in between, or due to a slow connection, or the bank's server is down.

CONCLUSION

Internet banking has become a necessary survival weapon and is fundamentally changing the banking industry worldwide. Today, the click of the mouse offers customers banking services at a much lower cost and also empowers them with unprecedented freedom in choosing vendors for their financial service needs. The rise of Internet banking is redefining business relationship with the customers. The International scope of Internet banking provides new growth perspectives and Internet business is a catalyst for new technologies and new business processes. The reach of Internet banking has rapidly increased due to the Telecommunication Infrastructure development in India.

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