



THE IMPACT OF E-BANKING ON THE DEVELOPMENT OF BANKS

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Abstract:

The banking industry has undergone immense changes with the introduction of information technology (IT). Electronic banking products and services have become increasingly popular in the past three decades as the banking industry operating in a complex and competitive environment has experienced the awareness to serve its customers electronically. The results show that e-banking has increased the profitability of banks, it has enabled the banks to meet their costs and earn profits even in the short span of time. For banks, the main motive to adopt e-banking is to increase their clients and to retain their customers. This paper aims at examining the effect of e-banking on the banking industry and the impact of demonetization in the banking industry and the role of e-banking services in digitization and it will also show the economic and social relations of e-banking and challenges faced by banking industry while using e-banking.

Key Words: Demonetization, Digitization, Financial Performance & Internet Banking

1. Introduction:

Electronic banking is the system which allows bank customers to access the accounts and general information on bank products and services through a personal computer or other intelligent device. e-banking allows a user to execute financial transactions via the internet. e-banking is also named as "internet banking", "online banking" or "web banking." An online bank offers customers just about every service traditionally available through a local branch, including deposits, which is done online or through the mail, and online bill payment. The last decade has witnessed a drastic change in the economic and banking environment all over the world. With the economic and financial sector reforms introduced in the country since early 1990s, the operating environment for banks in India has also undergone a rapid change. The process of deregulation and reforms in the Indian banking system resulted in the creation of an efficient and competitive banking system. To survive in this competition, the information and communication technology significantly contributed to the exponential growth and profit of financial institutions worldwide. Technology is the key to move towards providing integrated banking services to customers. Indian banks are the late starter in the promotion of technology for automation of processes and the integrated banking services but with the global adoption of technology, Indian banking is also at the threshold of paradigm shift due to the latest changes.

2. Importance:

The Importance of e-Banking: The importance of e-banking are as follows:

Productivity: e-banking leads to productivity gains. Automating routine bill payments, it minimizes the need to physically visit the bank and the ability to work as needed rather than on banking hours may decrease the time involved in performing routine banking activities.

Lower Banking Costs: Banking relationships and costs are often based on resource requirements. Business that place more demands on banking employees and need more physical assistance with wire transfers, deposits, research requests and other banking activities often incur higher banking fees.

Reduced Errors: Utilizing e-banking reduces banking errors. Automation of payments or other consistent financial activities ensures payments are made on time.

Reduced Fraud: Increased scrutiny of corporate finances through audits and anti-fraud measures requires a high level of visibility for all financial transactions.

3. Electronic Banking Products and Services:

Electronic banking has provided immense opportunities in offering goods and services to the customers. These are as follows:

Online Banking:

With Online Banking you can:

- ✓ View, Print, or Save your Account Statements.
- ✓ View images of your checks/deposits.
- ✓ Transfer funds between your accounts and create recurring transfers.
- ✓ Make loan payments.
- ✓ Submit a Change of Address request.
- ✓ Submit a Stop Payment request.
- ✓ Reorder checks.
- ✓ Paperless electronic bill payment (Free of Charge).

Online Bill Pay:

- ✓ Pay bills to anyone, anywhere.
- ✓ Set up recurring payments.
- ✓ Schedule payments in advance.
- ✓ Receive electronic bills online.
- ✓ Eliminate wasted paper.

Mobile Banking:

It allows to quickly review account activity, transfer funds, pay bills and deposit checks all from your mobile Device. Mobile Banking is a free service from the commercial bank that allows you to access your accounts anytime, from anywhere, using your Apple or Android device.

Features:

- ✓ Check account balances and transactions.
- ✓ Transfer funds and pay bills.
- ✓ View and adjust account alerts.
- ✓ Deposit checks remotely with your mobile device.
- ✓ Locate nearby branches.

E-Statements:

E-Statements are electronic copies of account statements that you can view, search, save and print online. It saves time, saves space, eliminates paper and clutter.

- ✓ It is available as free to all The Commercial Bank customers
- ✓ Statements are delivered securely to your Online Banking account
- ✓ View, print or save your statements for future reference.

Telephone Banking:

If you prefer to bank by phone, call us at any time to get your account or loan balances. You can also make loan payments by phone and transfer money between your checking and savings accounts.

4. Effects of Electronic Banking on Commercial Banks:

The following are the effects of electronic banking on the financial performance of commercial banks

Effects of cheaper internet costs on financial performance of commercial bank: The rapid development of the technology infrastructure, in particular the growth in the number of personal computers, the increased quality of Internet connections, the more widespread use of the Internet in both homes and businesses, and the significant reduction in both the fixed and variable costs of the Internet connections, have made it possible for the internet to play a more central role in banks. Banks advantaged particularly from the adoption of the Internet because of their universal character. The most important reason for adopting the Internet as a delivery channel is based on the expected reduction in overhead expenses made possible by. The costs of Internet banking rapidly falls down than those of traditional banks as output increases as a result of balance sheet growth.

Effects of 24 hour electronic banking on financial performance of commercial banks: Electronic banking offers more convenience and flexibility to customers coupled with a virtually absolute control over their banking. Service delivery is informational (informing customers on bank's products, etc) and transactional (conducting retail banking services). As an alternative delivery conduit for retail banking, it has the impact on productivity offered through Telebanking and PC-Banking. Apart from that it is the most cost efficient technological means of yielding higher productivity and it also eliminates the hurdles of distance / time and provides continuous productivity for the banks to unimaginable distant customers since it is accessible on a 24 hour basis.

Effects of Information and Communication Technology (ICT) competence of customers on financial performance of commercial banks: Information and Communication Technology (ICT) is fast becoming a dynamic channel that drives the economy. ICT is becoming increasingly important for the growth of our economy as a whole. It is an important factor, which influence the competitiveness among commercial banks in this era of e-Economy. Availability of skilled labour is a questionable resource requirement. There is a qualitative and quantitative imbalance in the supply of skilled labour and computer literacy amongst customers. It depends mainly on the demographic factors, and rapid technological advancements taking place around us. Due to the vast development in the area of e-Banking it is essential that the policy makers should focus on the growing demand in ICT skills and take corrective steps to prepare the required numbers and quality beforehand. e-banking enables to conduct banking business electronically over the Internet where the costs are minimal and it is no longer bound by time or geographical boundary. The target customers should as well equally be knowledgeable on the particular skills of applying Information Technology for the success of e-banking

5. Impact of Demonetization on Banks:

The government's decision on November 8 to immediately demonetize the Rs 500 and Rs 1,000 notes in circulation, which account for 86% of all currency in circulation, has impacted a raft of sectors. Demonetization has brought plethora of challenges in additions to the challenges which are already facing by Banks. The influences were short-term and long-term views. In short-term, it disrupted the banks and stressed

strongly to carry out bank operations and in long run it helped the banks to pool the deposits without incurring of any cost. Here are four influences of demonetization on Banks.

Increase in Deposits: demonetization has increased the deposits in Banks. Unaccounted money in the form of Rs.500 and Rs.1000 were flowing to the Banks and the sizes of deposits have been increased. It helped the banks to grab the deposits and increase their deposits.

Fall in cost of Funds: Over the past few months, the deposits are increased. It led the banks to keep a major part of deposits in the form of cash deposits. PSU Banks have a lion share (over 70%) of the deposits and biggest gainers of the rise in deposits, leading to lower cost of funds.

Demand for Government Bonds: After sharp rise in deposits on post demonetization, banks started lending such surplus deposits to the RBI under the reverse repo options. PSU Banks, particularly, deployed excess funds in government bonds. The return on bond investment is likely to add 15 to 20 per cent increase in the earnings of banks.

Sagginess in Lending: lending growth of the banks is considerably less even after demonetization and its impact of growth in the amount of public deposit. Banks have tried to lend the money to the needy group by reducing their interest rates, but it shrunk over the last few months.

6. Results of Post Demonetization on Bank Operations:

There are positive and negative results of Post Demonetization on Bank operations. Both have influenced Banks' liquidity and profitability and employees too.

The following are positive results of demonetization.

Free Flow of Deposits: Banks have gained deposits substantially after demonetization which they can invest for improving their liquidity and profitability.

Improved Digital Interface: Improvement in digital tools and equipment to execute bank transactions has avoided cash loss for various reasons like theft, dacoits and misappropriations.

People's Surplus at Bank: cash is an idle asset which does not yield any income unless kept in a bank. So, demonetization made the people to keep their surplus money in a bank to earn some sort of income.

7. Increased number of Customers:

Demonetization has influenced public to come and execute transactions with banks. It made even a non income group people to visit bank and have an account. It increased number of account holders in banks while increasing deposit corpus. Similarly, Demonetization has brought some operational issues to Banks. It disturbed Banks' Employees, Operational Costs and Profitability.

The following are negative influences of Demonetization.

Cash Reserve Requirement: The Reserve Bank of India or RBI has announced incremental CRR (cash reserve ratio) of 100% on the growth in bank deposits between 16 September 2016 and 11 November 2016. The entire incremental deposits (~Rs3.2lakhcrore) in the prescribed period have to be parked with the RBI as CRR. No interest will be paid on CRR, while banks will have to shell out ~4% interest on the funds received in savings deposits. Not only the expected positive carry on incremental deposits has been wiped out, but there will also be a negative carry on such deposits. The higher CRR is a temporary measure to drain liquidity in the banking system and will be reviewed in the fortnight ending 9 December 2016 or even earlier. This is a temporary measure to suck out excess liquidity in the banking system after the announcement of demonetization by the government as banks were parking bulk of the receipts through reverse repo window. Given the RBI's limited capacity to accept funds under reverse repo and related interest outflow on the same, the central bank announced parking of incremental deposits under CRR which entails no interest outflow.

Waived off ATM Charges: ATM charges were waived off during banned note exchange and banks incurred a loss of Rs. 20 in every transaction.

Waived off Merchant Discount Rate: Banks incurred loss of 1% discount charges from merchants on using of every card transaction.

Non Selling of Loans: Banks were focused on exchanging currency notes and they were not able to sell any loan products. This made banks to curb their lending activities.

Reduced SME's Sale and influence on NPAs: During demonetization, some SME businesses had seen their sales drop by 50-80 percent and could default in their instalments to banks. This led the banks to consider it as NPA and affected its level in banks.

Stress on Employees: Bank Employees were put under pressure and overtime work environment. It depressed them and kept imbalanced life style. Few cases were found where the employees committed suicide due to work pressure

8. Role of Electronic Banking towards Digital India:

The objective of the Digital India Group is to come out with innovative ideas and practical solutions to realise Honourable Prime Minister Narendra Modi's vision of a digital India. Prime Minister Modi envisions transforming our nation and creating opportunities for all citizens by harnessing digital technologies. His vision is to empower every citizen with access to digital services, knowledge and information. This Group will come up with policies and best practices from around the world to make this vision of a digital India a reality. The

'Digital India' campaign has the potential to transform the Indian banking industry. Highlighting the progress of 'Digital India', more than 12,000 rural post office branches have been linked into payment banking. India, being a nation which continues to be driven by cash, is also moving towards a cashless economy with financial inclusion policy and 'Digital India' campaign by the government, with the aim of controlling the flow of black money. It means the flow of cash within an economy is non-existent and all transactions have to be through electronic channels such as direct debit, credit and debit cards, electronic clearing and payment systems such as IMPS and NEFT. Digitization in banking industry essentially means making banking smooth and seamless for the customers. In the recent years, there is a notable drop in the usage of branches and tremendous increase in digital banking consumption. Most of the private banks and public sector banks are focused on offering new technology-based services to its customers like mobile banking, mobile banking apps and e-wallets. High success rate of digitization also raises security concerns that can destroy the business and the brand name. Cyber risk management in the business environment is one of the complex issues being faced by the banks, requiring incorporating sophisticated techniques and new skills and capabilities to be embedded in the people. However, the availability of biometric technologies and integration of Aadhaar cards has essentially digitized the customer inclusion process in a secure and streamlined manner.

9. Economic and Social Relations:

Launched three decades ago, online banking service has been connected to the fast technological and scientific innovations. Modern practical online techniques allow customers to profit from these services all the time. As a service it is accompanied by the economic and social reaction. The development of technology has increased people awareness of embracing the latest quality of service, so this could be considered a positive effect in a society, making customers life easier, for a short of time and effective. Moreover, the economy would be provided by all means good quality and great growth. From the bank's perspective the online banking in the beginning increases expenses, but it would pay off and result positive for the company after some time. Several studies showed that it took usually two or three years to see a positive result. Firstly the number of branches decreased the number of employees also and the usage of online banking increased. Secondly, it helps employees to profit their wages and paying bills or debts online at a 24/7 service facility. Online banking influences in decreasing the corruption and money laundry are as present as in the classic way. Rules defining bank transfers keep the confidentiality of the money amount, name and pin data. In this context, security in these operations represents another economic effect. Moreover, online banking service displays the marketing development, especially in online buying portals like Amazon and E-bay. The business offers have been adapted to the online banking changes and this interconnection of technology innovations; online banking transfers have stimulated the customers demand for product and services worldwide. Another influence is that online banking opens new possibilities to make an economic agreement between countries, stimulating trade of products and services by involving countries to transfer money from one state to another. This could imply to some benefit agreements as transaction cost could be lower and the relationship between countries can grow year by year bringing more mutual profits. Additionally, the using of online banking stimulates people to buy Personal Computer and mobiles. In general, it has a positive result on the economic aspect. According to the "Information Economy Report" by the UNCTAD secretariat there are some statistics and theoretical evidence that proves that using Information Communication Technology (ICT) had influenced the countries in economic aspect very much.

The usage of e-banking or online banking and e-payment for the retail and corporate concluded that it was less expensive for commercial bank and very convenient for household, government and businesses. Asymmetric information as a basic problem in financial markets seems to diminish through time as well. Progress of the technology helped also in the decrease of money pocket, which result in less robbing or stealing. It is very usual today to see people that have less cash money in their pocket, everything they pay either by card, by phone, or through a PC. It makes people more aware that is more secure and practical. The circulation of cash money is going to decrease while the electronic money is being more usable. The social reaction symbolizes a most delicate aspect of the online banking. On the basis of sex, age, education, probably there would be different reactions apparently between men and female relating online banking. In common, men depending from their education and income accepted online banking more easily than women did, because they were more reliable customers. This resulted, according to Yuen (2013) who studied gender and age acceptance in USA and Malaysia. His study was based on a questionnaire on which customers were asked in their last six months online banking operations. Characteristics that made female and male differ in using online banking were ranked as social influence, effort, performance and behaviour. Social influence in the USA resulted much 16 more present than in Malaysia, because young people usually are willing to try something new rather than in Malaysia. Moreover, Malaysian women are more willing to use online banking than in the USA, because they want to finish all financial obligations quickly and spend more time with the family. The study showed that in the USA young people are more reliable in an Online banking in comparison to Malaysia despite the higher age effect in Malaysia. Another study done in Finland by Mattila, Karjaluoto, Pentto (2003), provided more information of the age factor in relation to the use of online banking.

Despite the assumption that the high range of group using online banking was from 25-35 years old, the paper ascertained another view. According to it, the mature customer market is usually at the age of 65 years old. The 17 authors pointed out that in Finland, after twenty years every four persons will be in the age of 65 years old. So the main issue was providing extra information to older people on using the online banking. Despite the old aging Finnish society, older customers have businesses and possess money. Therefore, bankers would have strategies to include not only young people, but also them and the bank profits might increase. Education is a major characteristic which would impact using online banking. Studies based on undergraduate students showed that young people are more willing into using online banking. With a better education comes a better well paid job, therefore these increase the online banking involvement. All the payments are oriented towards the online banking, workshops, tickets and retail goods and other services. Well educated people represent the most probable online banking customer group.

10. Challenges Faced by Banks While Using Electronic Banking:

The development of an efficient monetary transfer system is associated with so many factors. These problems are infrastructural deficiency such as erratic power supply and communication link especially in developing countries. In this case it requires government or organizations to provide stable and efficient power supply and telecommunication system. Inadequate skilled managers and requisite tools on end users and client systems, here efforts should be done in provision of infrastructure and skilled man power, another problem is the large accumulation of cash in the economy and in this the government should compel legislation that would charge the dominance of cash usage to electronic payments. Also there is heavy amount charged or cost for the e-payment terminals (ATMs) so the banking legislation should set out standard charges for e-payment services. Non-provision of adequate security for fraud prevention, banks should endeavour to provide stand-by-camera in every ATMs confirming identify of operators account and employ a good computer wizard in dictating and preventing frauds committed by computer hackers. Lack of government support for the improvement of e-banking, there should be an involvement of central banks in public awareness campaign and escalating infrastructural challenges to the relevant government agencies. Other challenges include:

- ✓ Power Failure and Communication Link.
- ✓ Lack of computer bank up.
- ✓ Lack of adequate investment capital.
- ✓ Reduces employment in the country.
- ✓ High charges on machines.
- ✓ Low public acceptance.

11. Benefits of Electronic Banking:

Main advantages are as follows.

- ✓ It saves time spent in banks
- ✓ It provides ways for international banking.
- ✓ It provides banking throughout the year 24/7 days from anywhere that have internet access.
- ✓ It provides well-organized cash management for internet optimization.
- ✓ It provides convenience in terms of capital, labour, time all the resources needed to make a transaction.
- ✓ Taking advantage of integrated banking services, banks can compete in new markets and may get new customers and grow their market share.
- ✓ It provides some security and privacy to customers, by using state-of-the-art encryption and security technologies.

12. Conclusion:

Thus this paper provides an overview of electronic banking and its effects on financial performance of the commercial banks and it also gives information about economic and social relations of electronic banking and impact of electronic banking in the evolution of the banks. Demonetization is a tool used by central government to fight against corruption and black money. In the same path, it influenced and brought changes in all the corner of the economy. Banks are major institutions affected by demonetization Though it affected badly to major extent of bank operations, it helped the economy to find growth and development of the country through financial institutions like Banks. Thus this paper reveals that to survive in this competitive environment Indian banks should connect to fast technological improvements taking place in the external environment.

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