

SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION

MBA FA 203

SUBJECT NAME: BUSINESS ENVIRONMENT

UNIT-V

TOPIC NAME: E- BANKING



Electronic banking has many names like e banking, virtual banking, online banking, or internet banking. It is simply the use of electronic and telecommunications network for delivering various banking products and services. Through e-banking, a customer can access his account and conduct many transactions using his computer or mobile phone.

Online banking, also known as internet banking or web 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.

EMERGENCE OF COMPUTER BANKING:

The first known deployment of home computer banking to consumers came in December 1980 at United American Bank, a community bank headquartered in Knoxville, Tenn. United American partnered with Radio Shack to produce a secure custom modem for its TRS-80 computer that would allow bank customers to access account information securely. Services available in its first year included bill pay, account balance checks, and loan applications, as well as game access, budget and tax calculators and daily newspapers. Thousands of customers paid \$25-30 per month for the service.

Large banks, many working on parallel tracks to United American, followed in 1981 when four of New York's major banks (Citibank, Chase Manhattan, Chemical and Manufacturers Hanover) offered home banking services, using the videotext system. Because of the commercial failure of videotext, these banking services never became popular except in France (where the use of videotext (Minitel) was subsidized by the telecom provider) and the UK, where the Prestel system was used.

The developers of United American Bank's first-to-market computer banking system aimed to license it nationally, but they were overtaken by competitors when United American failed in 1983 as a result of loan fraud on the part of bank owner Jake Butcher, the 1978 Tennessee Democratic nominee for governor and promoter of the 1982 Knoxville World's Fair. First Tennessee Bank, which purchased the failed bank, did not attempt to develop or commercialize the computer banking platform.

FIRST ONLINE BANKING SERVICES BY REGION:

The United Kingdom:

Online banking started in the United Kingdom with the launch of Nottingham Building Society (NBS)'s Home link service in September 1982, initially on a restricted basis, before it was expanded nationally in 1983. Home link was delivered through a partnership with the Bank of Scotland and British Telecom's Prestel service. The system used Prestel view link system and a computer, such as the BBC Micro, or keyboard (Tan data Td1400) connected to the telephone system and television set. The system allowed users to "transfer money between accounts, pay bills and arrange loans... compare prices and order goods from a few major retailers, check local restaurant menus or real estate listings, arrange vacations enter bids in Home link's regular auctions and send electronic mail to other Home link users." In order to make bank transfers and bill payments, a written instruction giving details of the intended recipient had to be sent to the NBS who set the details up on the Home link system. Typical recipients were gas,

electricity and telephone companies and accounts with other banks. Details of payments to be made were input into the NBS system by the account holder via Prestel. A cheque was then sent by NBS to the payee and an advice giving details of the payment was sent to the account holder. BACS was later used to transfer the payment directly.

The United States:

In the United States in-home banking was "is still in its infancy" with banks "cautiously testing consumer interest" in 1984, a year after online banking went national in the UK. At the time Chemical Bank in New York was "still working out the bugs from its service, which offers somewhat limited features". The service from Chemical, called Pronto, was launched in 1983 and was aimed at individuals and small businesses. It enabled them to maintain electronic checkbook registers, see account balances, and transfer funds between checking and savings accounts. The other three major banks Citibank, Chase Bank and Manufacturers Hanover started to offer home banking services soon after. Chemical's Pronto failed to attract enough customers to break even and was abandoned in 1989. Other banks had a similar experience.

Since it first appeared in the United States, online banking has been federally governed by the Electronic Funds Transfer Act of 1978.

France:

After a test period with 2,500 users starting in 1984, online banking services were launched in 1988, using Minitel terminals that were distributed freely to the population by the government.

By 1990, 6.5 million Minitels were installed in households. Online banking was one of the most popular services.

Online banking services later migrated to Internet.

Japan:

In January 1997, the first online banking service was launched by Sumitomo Bank.^[13] By 2010, most major banks implemented online banking services, however, the types of services offered varied. According to a poll conducted by Japanese Bankers Association (JBA) in 2012, 65.2% were the users of personal internet banking.

China:

In January 2015, WeBank, the online bank created by Tencent, started 4-month-long online banking trail operation.

Australia:

In December 1995, Advance Bank acquired by St. George Bank, started to provide customers with online banking with the rollout of the C++ Internet banking program.

India:

In 1996, ICICI Bank introduced internet banking to its customers.

Brazil:

In 1996, Banco Original SA launched its online-only retail banking. In 2019 new banks began to emerge as the Conta Simples, focused only for companies.

FEATURES OF ONLINE BANKING:

Online banking facilities typically have many features and capabilities in common, but also have some that are application specific. The common features fall broadly into several categories:

- A bank customer can perform non-transactional tasks through online banking, including:
 - Viewing account balances
 - Viewing recent transactions
 - Downloading bank statements, for example in PDF format
 - Viewing images of paid cheques
 - Ordering cheque books
 - Download periodic account statements
 - Downloading applications for M-banking, E-banking etc.
- Bank customers can transact banking tasks through online banking, including:
 - Funds transfers between the customer's linked accounts
 - Paying third parties, including bill payments (see, e.g., BPAY) and third party fund transfers (see, e.g., FAST)
 - Investment purchase or sale
 - Loan applications and transactions, such as repayments of enrollments
 - Credit card applications
 - Register utility billers and make bill payments
- Financial institution administration
- Management of multiple users having varying levels of authority
- Transaction approval process

Some financial institutions offer special internet banking services, for example:

- Personal financial management support, such as importing data into personal accounting software. Some online banking platforms support account aggregation to allow the customers to monitor all of their accounts in one place whether they are with their main bank or with other institutions.

TYPES OF E- BANKING:

Banks offer various types of services through electronic banking platforms. These are of three types:

Level 1 – This is the basic level of service that banks offer through their websites. Through this service, the bank offers information about its products and services to customers. Further, some banks may receive and reply to queries through e-mail too.

Level 2 – In this level, banks allow their customers to submit instructions or applications for different services check their account balance, etc. However, banks do not permit their customers to do any fund-based transactions on their accounts.

Level 3 – In the third level, banks allow their customers to operate their accounts for funds transfer, bill payments, and purchase and redeem securities, etc.

Most traditional banks offer e-banking services as an additional method of providing service. Further, many new banks deliver banking services primarily through the internet or other electronic delivery channels. Also, some banks are ‘internet only’ banks without any physical branch anywhere in the country.

BANKING WEBSITES ARE OF TWO TYPES:

1. **Informational Websites** – These websites offer general information about the bank and its products and services to customers.
2. **Transactional Websites** – These websites allow customers to conduct transactions on the bank’s website. Further, these transactions can range from a simple retail account balance inquiry to a large business-to-business funds transfer. The following table lists some common retail and wholesale e-banking services offered by banks and financial institutions:

Common E-Banking Services

Retail Services	Wholesale Services
Account management	Account management
Bill payment	Cash management
New account opening	Small business loan applications, approvals, or advances
Consumer wire transfers	Commercial wire transfers
Investment / Brokerage services	Business-to-business payments
Loan application and approval	Employee benefits / pension administration
Account aggregation	

IMPORTANCE OF E-BANKING:

We will look at the importance of electronic banking for banks, individual customers, and businesses separately.

Banks:

1. Lesser transaction costs – electronic transactions are the cheapest modes of transaction
2. A reduced margin for human error – since the information is relayed electronically, there is no room for human error
3. Lesser paperwork – digital records reduce paperwork and make the process easier to handle. Also, it is environment-friendly.
4. Reduced fixed costs – A lesser need for branches which translates into a lower fixed cost.

5. More loyal customers – since e-banking services are customer-friendly, banks experience higher loyalty from its customers.

Customers:

1. Convenience – a customer can access his account and transact from anywhere 24x7x365.
2. Lower cost per transaction – since the customer does not have to visit the branch for every transaction, it saves him both time and money.
3. No geographical barriers – In traditional banking systems, geographical distances could hamper certain banking transactions. However, with e-banking, geographical barriers are reduced.

Businesses:

1. Account reviews – Business owners and designated staff members can access the accounts quickly using an online banking interface. This allows them to review the account activity and also ensure the smooth functioning of the account.
2. Better productivity – Electronic banking improves productivity. It allows the automation of regular monthly payments and a host of other features to enhance the productivity of the business.
3. Lower costs – Usually, costs in banking relationships are based on the resources utilized. If a certain business requires more assistance with wire transfers, deposits, etc., then the bank charges it higher fees. With online banking, these expenses are minimized.
4. Lesser errors – Electronic banking helps reduce errors in regular banking transactions. Bad handwriting, mistaken information, etc. can cause errors which can prove costly. Also, easy review of the account activity enhances the accuracy of financial transactions.
5. Reduced fraud – Electronic banking provides a digital footprint for all employees who have the right to modify banking activities. Therefore, the business has better visibility into its transactions making it difficult for any fraudsters to play mischief.

E BANKING IN INDIA:

When the ICICI Bank first offered internet banking services, today, most new-generation banks offer the same to their customers. In fact, all major banks provide e-banking services to their customers.

Popular services under e-banking in India

- ATMs (Automated Teller Machines)
- Telephone Banking
- Electronic Clearing Cards
- Smart Cards
- EFT (Electronic Funds Transfer) System
- ECS (Electronic Clearing Services)
- Mobile Banking
- Internet Banking
- Tele banking
- Door-step Banking

Further, under Internet banking, the following services are available in India:

1. **Bill payment** – Every bank has a tie-up with different utility companies, service providers, insurance companies, etc. across the country. The banks use these tie-ups to offer online payment of bills (electricity, telephone, mobile phone, etc.). Also, most banks charge a nominal one-time registration fee for this service. Further, the customer can create a standing instruction to pay recurring bills automatically every month.
2. **Funds transfer** – A customer can transfer funds from his account to another with the same bank or even a different bank, anywhere in India. He needs to log in to his account, specify the payee's name, account number, his bank, and branch along with the transfer amount. The transfer is affected within a day or so.
3. **Investing** – Through electronic banking, a customer can open a fixed deposit with the bank online through funds transfer. Further, if a customer has a demat account and a linked bank account and trading account, he can buy or sell shares

online too. Additionally, some banks allow customers to purchase and redeem mutual fund units from their online platforms as well.

4. **Shopping** – With an e-banking service, a customer can purchase goods or services online and also pay for them using his account. Shopping at his fingertips.

ADVANTAGES AND DISADVANTAGES OF E – BANKING:

ADVANTAGES OF E-BANKING:

All the advantages of e-banking are closely related to each other; from convenience to efficiency, we list out 10 advantages of net banking.

- Benefits and Rewards
- Notifications and Alerts
- Faster Transactions
- Convenience
- Security
- Easy Access
- Speed and Efficiency
- Lesser Limitations
- More Features
- Better Customer Service

Let us look at them one by one.

1. Benefits and Rewards:

A lot of online banks offer more benefits and rewards to their customers that not only benefit the bank but also benefit their customers.

Online banks are willing to offer higher interest rates and better transfer services to their customers who regularly use online banking.

This happens partly due to the fact that the banks have to bear reduced costs when serving online customers.

Therefore, the overall banking experience is obviously better than that of visiting a physical bank branch and handling the same transaction.

2. Notifications and Alerts:

Customers are instantly alerted or notified about new changes in the system.

From changes in the policy to logins from new devices, customers get instant notifications and alerts.

However, if you're associated with a real bank, you would probably get a text alert or a customer service agent will call you to notify about major changes. Chances are, you're missing out on a lot of changes.

Banks also endorse new products, services and schemes like new investment options, changes in the loan policies, etc. to online customers first.

3. Faster Transactions:

You don't have to wait for your turn to transfer funds – you can do that with a single tap of your finger or a single click of your mouse.

Funds from one account will be transferred to another in a matter of a few seconds. Anything that requires quick payments can be done with the help of e-banking.

For instance, you are required to immediately pay your child's school fees. You can do it via the bank's app or website or you can physically go to the bank to withdraw cash and then going to the school to deposit the fees.

You'll probably end up wasting half the day to perform this transaction which with the app's help could've been performed in a matter of minutes.

4. Convenience:

You can conveniently handle your account transactions without all the hassle of being in the queue on a sultry afternoon.

E-banking is extremely convenient if you have a decent internet connection (wifi or 3G/4G data).

You can access the website from anywhere without actually having to visit the bank. If your banking needs don't involve the assistance of any staff member or a manager, online banking is the best option for you.

5. Security:

With internet banking, you can always monitor your account activities.

This not only serves as a history of all the transactions but also helps you identify threats and suspicious activities before any severe damage can be done to your account.

Online accounts are protected with encryption software that ensures complete safety to the user. Alerts related to passwords and digital signatures are sent periodically to maintain the security of the account.

6. Easy Access:

Customers can enjoy easy access with online accounts by simply typing in the log-in credentials. In addition to that, customers can also handle several accounts at a time.

Since the internet remains the medium of connection, users can also access different accounts in different banks from a single device.

7. Speed and Efficiency:

In a hurry to apply for an educational loan? Or quickly need to pay bills? Or perform any banking transaction without having to waste half your day? Do it via the internet.

There's no waiting nor do you have to rush through anything – you can take your time and perform all banking transactions with patience and it will be done in nearly 1/10th the time spent on actually driving down to the bank and getting it done.

8. Lesser Limitations:

Traditional banks have several constraints like operating hours, the physical location of the bank branch, holidays, etc.

You don't have to wonder if it's a holiday with online banking, or what time is it to perform a transaction.

Be it Sunday or the middle of the night and you will still be able to do everything (and even more) through their app or website as it's available twenty-four hours a day, throughout the year.

9. More Features:

Apart from being flexible, some banks go out of their way to satisfy their customers by not penalizing on withdrawals on the certificate of deposits, letting customers maintain accounts with no minimum balance, etc.

Moreover, banks generally offer more offers and discounts on credit and debit cards used by customers who have online accounts.

10. Better Customer Service:

Banking websites and apps come with customized web pages to solve customer queries and often have a dedicated ‘Frequently Asked Question’ (FAQs) section that helps in answering common customer queries.

You can chat with a customer service agent or call them if you need more help. This not only saves the time of the customers but also that of the bank employees who can shift their focus to more important things.

DISADVANTAGES OF E-BANKING:

“Every bean has its black”

Everyone and everything has some shortcomings.

Similarly, there are some limitations of net banking; from security to technology issues, we list out 10 disadvantages of net banking.

- Difficult for Beginners
- Trust and Responsibility
- Inconvenience
- Inability to Handle Complex Transactions
- Financial Jargon
- Security Issues
- Technology Issues
- Virtual Assistance
- Complicated Websites
- Other Limitations

Let us look at them one by one.

1. Difficult for Beginners:

Newbie often face difficulty in trying to get the hang of e-banking.

Initially, customers are scared of losing their money and are often hesitant to explore all the options and features that are available on the website or on the app.

New users often give up and stick to traditional banking if timely assistance isn't provided.

2. Trust and Responsibility:

Fake websites and phishing sites are common in this age of technology. Can you really trust all websites? Is it wise to trust an online site with all your money? What if the website folds up and all your money is gone? This wouldn't happen in a real bank.

There is trust between the bank and their customers you know your money is safe with the bank because they take responsibility for your money. Real banks are permanent and reliable while some websites are not.

3. Inconvenience:

Sure, online banks are open throughout the year but they are a serious cause of inconvenience in certain instances.

For example, if you get locked out of your account you will be unable to perform any banking transactions.

However, in a real bank, you establish relationships with the staff, who know you on a personal level and will be willing to assist you in such cases.

You wouldn't have to be on the phone explaining your situation to an unknown customer service agent which by the way, might also take several days.

Also, a few online banks don't allow cash deposits. To deposit cash, you will be required to email a check and transfer money from another account or bank, or use their e-check deposit service.

4. Inability to Handle Complex Transactions:

While you can easily pay bills and transfer funds, you can't perform complex transactions online.

When a large sum of money is involved, it is advisable to visit a real bank and sort it out in-person rather than doing it online.

Some financial transactions also need a document verification (like buying a house) so it is better to submit them physically than digitally.

5. Financial Jargon:

Financial jargon can often get between you and your money. Knowledge is power, in this case, knowledge is money.

Though financial literacy can't be achieved overnight, it can be helped along by a grasp of the basic terms that are commonly used by advisors, analysts, economists, and commentators.

6. Security Issues:

Sure, most banks are well-reputed and established; there are times when you face security issues.

There's always a risk of actual and/or identity theft. It's also possible to get unauthorized access to your account via stolen or hacked log-in credentials.

7. Technology Issues:

If you don't have a decent connection or there are bugs in the software, or say, there is a power cut or maybe the servers have gone down – websites are bound to crash and you will undoubtedly face a lot of technological issues.

While you may get various types of customer service at the moment but sooner or later, you will get frustrated. However, someone is always around to help you in a real bank.

8. Virtual Assistance:

When you need assistance during e-banking, your concern is generally assigned to an anonymous customer service agent who is unlikely to know you.

Wouldn't you rather talk to a personal banker when you're in a fix than an unknown agent?

A personal banker will also know your transaction history, your personal details and will be in a better position to assist you.

9. Complicated Websites:

Some websites look like a page straight from a super complex scientific experiment. Written in a secret code language with bizarre fonts and colors.

I mean, sure some websites are simple and you can get all the things done in a jiffy.

But some websites are downright complicated and confusing. With pop-ups, errors, links, and interlinks, redirections to probably a million pages, it gets really difficult to understand.

10. Other Limitations:

E-banking isn't for everyone. Illiterate and the elderly cannot use online banking. Neither can an individual access their accounts if they don't have an internet connection.