



Potential & Impediments of Indian Internet Banking: A Critical Analysis

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ABSTRACT

On a long-term basis, Indian banking business definitely looks attractive as it is a huge under-penetrated banking market. According to a PricewaterhouseCoopers (PwC) report, India may well be the third largest banking hub in the world by 2040. The penetration of banking channels will have to increase in geometrical progression, to help fulfill

India's aspirations of becoming an economic superpower in the 21st century. Though the Internet Banking in India has a huge potential, still there are lot of impediments in its way. Online banking has not penetrated in India to the expected levels compared to the growth in other areas. A widespread trust in the security of electronic transactions is yet to develop among the masses. The traditional mind setup of the Indian customers who believe in touch and feel factor and the lack of awareness perhaps are the main reasons why Internet banking has not grown well in India.

Internet banking has been gaining ground around the globe. In order to get a share of the opportunities and to face the new challenges, Indian banking sector should try to cater to the demands of the tech-savvy young generation by resorting to more sophisticated and innovative information technology. However, it has to be kept in mind that a significant proportion of older consumers still believe in human contact. Thus, the only way to maintain competitiveness seems to be the adoption of a hybrid model ('clicks and mortar') that offers traditional as well as online banking services.

KEYWORDS : Internet Banking, Prospect, impediments, Security, authentication

Introduction:

In the post Liberalization, Privatization and Globalization era, the rapid development of information and communication technologies has led banking sector transformation from manual business to electronic business, with new ways of bringing their services to the customers. The use of the Internet in the conduct of business is growing at a rapid pace. Within less than two decades since the introduction of the web for commercial operations, Internet Banking channel has come a long way. From a status of channel of conducting basic information and transactions, it is now being recognized as "a self-reliant channel capable of conducting banking independently and posing as a strong complementary channel in a multi-channel integration era. We find that, most of the banks across the globe predominantly use Internet Banking channel for customer convenience, cost reduction, attracting new customers and reducing customer attrition.

Objectives of the Study:

In this back drop the present paper tries to highlight these basic aspects:

- Growth potentiality of the Indian banking sector in present economic scenario.
- How the use of information and communication technology can help the Indian banking sector to trap the huge under penetrated market of India.
- How use of internet banking channel can increase customer convenience and at the same time increase bank's profitability.
- In the next place, Impediments in the way of successful implementation of Indian internet banking system are discussed.
- Last but not the least there will be conclusion of the whole paper, with some recommendations.

Potential of the Indian Banking Sector:

From the perspective of Indian present demographic situation, the question arises, what is the profile of the future customers? The Indian banks have identified the growth potential of the generation next and are providing schemes especially keeping in mind the requirements and preferences of the younger generation. It is estimated that in the next decade, the banks in India are expected to have nearly 250 million more customers with high expectations on services and products, having global exposure and diverse mindsets. The demographic transition that India is going through will result in addition of millions of youth, who are potentially a bankable population and present a unique opportunity for banking system to expand their customer base. It has been estimated that the population in the 15-24 age group grew from around 175 million in 1995 to 190 million in 2000 and 210 million in 2005, increasing by an average of 3.1 million a year between 1995 and 2000 and 5 million between 2000 and 2005.

In 2020, the average Indian will be only 29 years old, compared with 37 in China and the US, 45 in West Europe and 48 in Japan. While this staggering number will indeed pose major challenges for the banks, it also represents a huge opportunity for these institutions to grow and flourish.

On a long-term basis, Indian banking business definitely looks attractive as it is a huge under-penetrated banking market. There are other factors favouring Indian banking potential like younger population, very impressive household saving rate etc. The penetration of banking channels will have to increase in geometrical progression, to help fulfill India's aspirations of becoming an economic superpower in the 21st century.

Benefits of Internet Banking Channel:

Presently, most of the banks across the globe predominantly use Internet Banking channel for customer convenience, cost reduction, attracting new customers and reducing customer attrition. The chief driving force behind the use of internet banking technology is the competitive pressure. Private Banks in India were the first to implement internet banking services in the banking industry to gain competitive advantages against the public sector banks as they well understood that it is not possible for them to establish network in remote corners of the country like the existing PSUs. It was clear to them that the only way to stay connected to the customers at any place and at anytime is through internet applications.

The second most important thing of using internet banking is the reduction of cost in banking transactions. The operational costs have come down due to technology adoption. Online transaction costs can be as low as 1 % of an equivalent off-line transaction, rapidly increasing the popularity of the online option with consumers, as well as banks (Turban et al. 2002).

Another most important aspect of internet banking is that it can reduce customer attrition rate and at the same attract new customers by offering multidimensional product and services right from birth to death. The younger generation is much more tech-savvy and believes in saving time and energy by using technology. There are many other factors of increasing worldwide popularity of internet banking system like, 24*7 services that means customers can have access to his accounts at any time and from anywhere and save his valuable time without visiting brick and mortar branch.

Challenges in Internet Banking:

Still Indian banking sector is not equipped enough to compete with the world largest banks despite its huge potentiality. They have to reinvent and improve their products and services to make them more

beneficial and cost effective. The London based magazine "The Banker" has now listed only twenty Indian banks including private sector banks in the list of "Top 1000 World Banks". The State Bank of India, the largest bank in India, ranks only 82nd amongst the top global banks. It is not even a 10th in size of the 9th largest bank, Sumitomo Mitsui, which has assets of \$950 billion as against SBI's assets of \$91 billion. Therefore, our banks are not equipped enough to compete in the international arena. Realizing the need to grow in size, the Indian banking system today is moving from a regime of "large number of small banks" to "small number of large banks." As per the Narasimhan Committee (II) recommendations, consolidations around identified core competencies are taking place. Mergers and acquisitions in the banking sector are the order of the day.

Though the Internet Banking in India has a huge potential, still there are a lot of impediments in its way. Online banking has not penetrated in India to the expected levels compared to the growth in other areas.

1. The first and foremost problem in adoption of internet banking is that widespread trust in the security of electronic transactions is yet to develop among the masses. The traditional mind set-up of the Indian customers who believe in touch and feel factor and the lack of awareness are perhaps the main reasons why Internet banking has not grown well in India.
2. India lags behind other countries in terms of penetration of internet services. For internet banking transactions, the most vital requisite is the internet connection. While our objective is to expand our formal banking services to every nook and corner of India through innovative information technology at affordable price to the poorest of the poor, without deep penetration of internet connectivity, our efforts will go in vain.
3. Another impediment in the way of expansion of internet banking in India is the slow speed and high cost of internet services as compared to other developed as well as other Asian countries.
4. There are also certain psychological aspects which hinder the expansion of internet banking. Many customers think that there is a great risk of their online identity, which could be exposed to fraudsters. The fear of theft of passwords and pin codes lurk in the minds of these people who are hesitant in resorting to internet banking. There are concerns about viruses attacking the bank's computers and bringing the system to a halt, or hackers getting in and stealing all the money. Online fraud has become major source of revenue for criminals all over the globe. The biggest threat to online banking is the threat of 'Phishing'. Phishing is a form of online identity theft that employs both social engineering and technical tactics to steal consumers' personal identity data and financial account credentials.

Conclusion:

It is thus evident that for the success of internet banking, it is imperative that the banks meet the requirements and expectations of customers, while at the same time assuring their privacy and security in providing these services. However, banks are working towards addressing these problems. The security issues can be tackled by having the bank's systems technologically equipped to evade operational and security risks. An effective authentic system is necessary to safeguard identity of the customers and to protect them from hackers. The entire bank should introduce multi factor authentication methods which are more reliable and stronger fraud deterrent. Single factor authentication system which uses logon ID/password (i.e. something the user knows) is not at all reliable for security purpose. In case of two factor authentication system there is a provision for something the user possesses (i.e., the card) combined with something the user knows (i.e., PIN) and multifactor authentication system also includes something the user is (e.g., biometric characteristic, such as a fingerprint, retina). The latter two are more reliable. Presently banks have

also introduced OTP (one time password) generation system at the time of online transaction that makes the system more secure. With the passage time and huge technological development in India, others problems can also be mitigated. For the growth of the Indian economy, the development of the banking sector is essential. This is only possible if the require infrastructure is developed, which in turn needs huge financial input and awareness among public to resort to internet banking. This task can only be accomplished if the banking sector and the Government come together and jointly work in this direction.

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