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Special Issue on

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IMPACT OF E-BANKING ON TRADITIONAL BANKING SERVICES

Dr. R. Vennila
Assistant Professor, Department of Commerce
The Madura College(Autonomous), Madurai-11

Dr. A. Mayil Murugan
Associate Professor & Head, Department of Commerce
The Madura College(Autonomous, Madurai-11

Abstract

Internet banking is changing the banking industry, having the major effects on banking relationships. Banking is now no longer confined to the branches were one has to approach the branch in person, to withdraw cash or deposit a cheque or request a statement of accounts. In true Internet banking, any inquiry or transaction is processed online without any reference to the branch (anywhere banking) at any time. Providing Internet banking is increasingly becoming a "need to have" than a "nice to have" service. The net banking, thus, now is more of a norm rather than an exception in many developed countries due to the fact that it is the cheapest way of providing banking services.

This research paper will introduce you to e-banking, giving the meaning, functions, types, advantages and limitations of e-banking. It will also show the impact of e-banking on traditional services and finally the result documentation.

***Keywords:** E-Banking, Functions, Advantages, Limitations, Traditional banking services.*

Introduction

Internet banking (or E-banking) means any user with a personal computer and a browser can get connected to his bank's website to perform any of the virtual banking functions. In internet banking system the bank has a centralized database that is web-enabled. All the services that the bank has permitted on the internet are displayed in menu. Once the branch offices of bank are interconnected through terrestrial or satellite links, there would be no physical identity for any branch. It would be a borderless entity permitting anytime, anywhere and anyhow banking.

The network which connects the various locations and gives connectivity to the central office within the organization is called intranet. These networks are limited to organizations for which they are set up. SWIFT is a live example of intranet application.

E-banking provides enormous benefits to consumers in terms of ease and cost of transactions, either through Internet, telephone or other electronic delivery. Electronic finance (E-finance) has become one of the most essential technological changes in the financial industry. E-finance as the provision of financial services and markets using electronic communication and computation. In practice, e-finance includes e-payment, e-trading, and e-banking.

Functions of E-Banking

At present, the personal e-bank system provides the following services: -

A. Inquiry about the Information of Account

The client inquires about the details of his own account information such as the card's / account's balance and the detailed historical records of the account and downloads the report list.

B. Card Accounts' Transfer

The client can achieve the fund to another person's Credit Card in the same city.

C. Bank-Securities Accounts Transfer

The client can achieve the fund transfer between his own bank savings accounts of his own Credit Card account and his own capital account in the securities company. Moreover, the client can inquire about the present balance at real time.

D. The Transaction of Foreign Exchange

The client can trade the foreign exchange, cancel orders and inquire about the information of the transaction of foreign exchange according to the exchange rate given by our bank on net.

E. The B2C Disbursement on Net

The client can do the real-time transfer and get the feedback information about payment from our bank when the client does shopping in the appointed web-site.

F. Client Service

The client can modify the login password, information of the Credit Card and the client information in e-bank on net.

G. Account Management

The client can modify his own limits of right and state of the registered account in the personal e-bank, such as modifying his own login password, freezing or deleting some cards and so on.

H. Reporting the Loss

The client can report the loss in the local area (not nationwide) when the client's Credit Card or passbook is missing or stolen.

Types of E-Banking

- Deposits, withdrawals, inter-account transfer and payment of linked accounts at an ATM;
- Buying and paying for goods and services using debit cards or smart cards without having to carry cash or a cheque book;
- Using a telephone to perform direct banking- make a balance enquiry, inter-account transfers and pay linked accounts;
- Using a computer to perform direct banking- make a balance enquiry, inter-account transfers and pay linked

Advantages to The Users

1. **Account assessing and bank facilities cost reduction**. Clients can access information, cash withdrawals, make transfers or reschedule future payments by avoiding conventional e-banking services costs.
2. **Convenience**. Online banking builds it possible to make transaction 24 hours at any place with no requirement of physical availability and as a result with no requirement of transportation costs. This builds banking easier, faster, more effective and even more efficient because consumers are capable to always stay on top of their account balances.
3. **Fast and continual information access**. This has a great significance for both individual and corporate customers because they can access information for all their transactions and accounts simultaneously and can continue utilizing this information for their financial analysis and reports or for further future decisions.
4. **Better Cash management**. The electronic performance of the transactions increases the cash flow speed through the instruments availability that build possible its better management. For instance: E banking builds it easier to maintain the company short term fund through: overnight investments, securities or money market operations. By online banking users can build a consolidated interface and can easily maintain their credit or debit accounts, their investment portfolio, loans or other financial assets.
5. **Customers can also submit the following requests online**: Registration for account statements by e-mail daily / weekly / fortnightly / monthly basis.
   - Stop payment or cheques
   - Cheque book replenishment
   - Demand Draft / Pay-order
   - Opening of fixed deposit account
6. Opening of Letter of credit
7. Downloading of account statements as an excel file or text file.
8. Customers can Integrate the System with his own ERP

Limitation of E-Banking

Some users nowadays hesitate utilizing online banking because they suspect the safety of performing transactions through internet. Their statement is described somehow by the strong drawbacks that come with online banking:

1. **Indirect cost**. Accessing e-banking facilities ask good knowledge and access to a PC and also internet link which means extra costs for the subscriber.
2. **The deficiency of cash availability**. Users can not make physical cash deposits when utilizing online banking.
3. **Transaction problems** – face to face meeting is better in managing complex transactions and issues. Customary banks may call for meetings and look for expert suggestions to resolve problems.
4. **The risk of security breach** - Security is by far one of the major concerns dealing with e- banking, worrying that intruders will get into their account and spend their money. The access of unauthenticated persons in the system is a concern for both clients and banks.

Internet Banking Security

Internet banking is a new particular banking area, part of e-banking industry, which permits people to communicate with their banking accounts virtually from anywhere in the world. Internet banking approaches few evolving trends i.e. customer need for any time, anywhere facilities, product time to market essentials, and increasingly complicated back-office integration challenges. One such issue is the online financial transactions security. In order for the industry to grow further, secure transactions with the customers trust are essential aspects. Some banks advertise secure online facilities, and permit their user to perform a broad range of banking activities. Some of the security characteristics in internet banking use involve:

1. **Security token devices:** Protection through single password authorization, as its the case in most secure internet shopping sites, it is not assumed secure enough for personal online banking applications in some countries. Particularly, here are two different techniques for internet banking: The PIN/TAN system where the PIN shows a password, utilized for the login and TANs showing one-time passwords to authorize transactions. TANs can be disseminated in various ways, the most famous one is to forward a TANs list to the internet banking customer by postal letter. The most protected way of utilizing TANs is to producing them by employing a security token. These token created TANs are based on the time and a unique secret, saved in the security token. Often, internet banking with TAN/PIN is performed by a web browser utilized SSL secured links, so that there is no extra encryption required. Another way to offer TANs to an internet banking customer is to forward the TAN of the current bank transaction to the subscriber's (GSM) mobile phone through SMS. The SMS text often provides the transaction amount and details, the TAN is only valid for a short time period.
2. **Signature based internet banking:** where whole transactions are signed and encrypted digitally. The Keys for the signature creation and encryption can be recorded on smartcards or any memory medium, based on the concrete implementation.
3. **Security:** Transactions security is a primary concern for banks whereas the deficiency of security may result in critical actual loss. Examples of powerful hazards of internet banking involve minting electronic currency, online transactions etc.
4. **Anonymity:** The privacy problem is a subset of the security problems banks face. By strengthening the secrecy of the sender's personal information and improve the transactions security. Examples of private information related to the internet banking industry involve the transactions amount, the transaction time and date as well as the merchant name where the transaction is occurring.
5. **Authentication:** Encryption may support make the transactions more protected but there is also a requirement to ensure that no one can modify data at either end of the transaction. In performing so, there are two ways that someone can validate the message integrity. One verification form is the secure Hash algorithm which secures data from any possible changes. In practice, the sender forwards the Hash algorithm created data. The receiver performs the same computation and compares the two to make ensure everything reached correctly. If the two results are different, a modification in the message has taken place. The other verification form is through a third party known as Certification Authority (CA) with the trust of both the receiver and sender to verify that the electronic currency or the digital signature that they achieved is real.
6. **Divisibility:** Electronic funds may be divisible into several currency units same as real money value. For instance, electronic money requires to accounts for nickels and pennies Internet banking, minimum to some degree, has become the norm for several simple bank transactions. And that's not a bad thing - the simpler and more protected it is for consumers to examine their accounts, transfer money from one account to another, pay their bills and the more likely they are to actually do these things and manage a more organized financial life. Since, it's significant to assume that just because internet banking is a good addition to consumer banking world, doesn't essentially mean that direct internet banks are a replacement for their brick-and-mortar peers in all cases. So in the following we'll take a view at what internet banks have to provide - and where they may fall short.

E-banking in India

In India the traditional method of banking was through branch banking. It was in 1991, that with economic reforms, the banking industry also witnessed the new wave of banking methods. It was Saraf Committee which was constituted by RBI in 1994 that recommended the use of Electronic Fund Transfer System (EFT), introduction of electronic clearing services and extension of Magnetic Ink Character Recognition (MICR) beyond metropolitan cities and branches. It was ICICI bank which became the pioneer of e-banking in India .It was the first bank to introduce online banking services in 1996. Its initiatives were followed by Citibank, IndusInd Bank and HDFC Bank who provided internet banking services in 1999.Various initiatives have been taken by both the government and the Reserve Bank from time to time to smooth the expansion of e-banking in India. The Government of India enacted the IT Act, 2000 which provided legal recognition to electronic transactions and other means of electronic commerce. The important technological developments witnessed in the new age payment systems in India are:

1. Arrival of card- based payments- debit card, credit card- late 1980" s and early 1990" s.
2. Introduction of Electronic Clearing Service (ECS) in late 1990" s
3. Introduction of Electronic Funds Transfer/ Special EFT in the early 2000" s
4. Real Time Gross Settlement (RTGS) was introduced in March 2004
5. Introduction of NEFT (National Electronic Funds Transfer) 2005/06
6. Introduction of CTS (Cheque Truncation System) in the year 2008

Impact of E-Banking on Traditional Services

E-banking transactions are much cheaper than branch or even phone transactions. This could turn yesterday's competitive advantage - a large branch network - into a comparative disadvantage, allowing e-banks to undercut bricks-and-mortar banks. This is commonly known as the "beached dinosaur" theory.

E-banks are easy to set up, so lots of new entrants will arrive. 'Old-world' systems, cultures and structures will not encumber these new entrants. Instead, they will be adaptable and responsive. E-banking gives consumers much more choice. Consumers will be less inclined to remain loyal.

Portal providers are likely to attract the most significant share of banking profits. Indeed banks could become glorified marriage brokers. They would simply bring two parties together e.g. buyer and seller, payer and payee.

The products will be provided by monolines, experts in their field. Traditional banks may simply be left with payment and settlement business even this could be cast into doubt. Traditional banks will find it difficult to evolve. Not only will they be unable to make acquisitions for cash as opposed to being able to offer shares, they will be unable to obtain additional capital from the stock market. This is in contrast to the situation for Internet firms for whom it seems relatively easy to attract investment.

E-banking is just banking offered via a new delivery channel. It simply gives consumers another service (just as ATMs did). Experience in Scandinavia (arguably the most advanced e-banking area in the world) appears to confirm that the future is 'clicks and mortar' banking. Customers want full service banking via a number of delivery channels. The future is therefore 'Martini Banking' (any time, any place, anywhere, anyhow).

Traditional banks are starting to fight back. The start-up costs of an e-bank are high. Establishing a trusted brand is very costly as it requires significant advertising expenditure in addition to the purchase of expensive technology (as security and privacy are key to gaining customer approval).

E-banks have already found that retail banking only becomes profitable once a large critical mass is achieved. Consequently many e-banks are limiting themselves to providing a tailored service to the better off. E-Banking transaction needs some interface to communicate with banking customer. All the electronic transaction performs through some interfaces.

The electronic devices which perform interact with customers and communicate with other banking system is called electronic banking delivery channels.

Conclusions

E-banking is a borderless entity permitting anytime, anywhere and anyhow banking. This facilitates us with all the functions and many advantages as compared to traditional banking services. During this step of the process, controls that could mitigate or eliminate the identified risks, as appropriate to the organization's operations, are provided. The goal of the recommended controls is to reduce the level of risk to the IT system and its data to an acceptable level.

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