# Future Perspective of Internet Banking in India : An Overview

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It is universally established truth that the Internet Banking revolution has substantially changed the business of banking by scaling borders and thereby bringing about new opportunities. Our Nation India is not exception to it. In India also it has strongly influenced the strategic business considerations for Banks by significantly cutting-down costs of delivery and transactions. It is not irrelevant to mention here that, while *Internet Banking* provides so many benefits to customers and banks, it also aggravates traditional banking risks. If we compare the position in this regard with developed countries, we find that developing countries face many impediments that affect the successful implementation of *E-Banking* initiatives.

**(1) Challenges of E-Banking System for Developing Nations :**

Based on 'best practices' in developed countries, United Nations Conference on Trade and Development 2002, report has identified four challenges that developing countries, in general, are expected to overcome to achieve the advantages that e-banking initiatives can bring about.

The ability to adopt global technology to local requirements, an adequate level of infrastructure and human capacity building are required before developing countries can adopt the global technology for their local requirements. For example, the review of the migration plan of Society for Worldwide Interbank Financial Telecommunications (SWIFT) to the internet shows that today full migration has not occurred in many developing countries due to the lack of adequate infrastructure, working capital, and required technical expertise. Broadly accepted e-payment systems are another such example. Many corporate and consumers in some developing countries either do not trust or do not have access to the necessary infrastructure to be able to process e-payments.

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The ability to strengthen public support for e-finance, historically, most e-finance initiatives in developing countries have been the result of cooperative efforts between the private and public sectors. For example, Singapore's successful Trade Net system was a government sponsored project. If the public sector does not have the necessary means to implement the projects it is essential that cooperative efforts between public and private sectors, along with the multilateral agencies like the World Bank, be developed to facilitate public support for e-finance, related initiatives.

The ability to create a necessary level of regulatory and institutional frameworks, the lack of regulatory frameworks, trust, security and privacy standards, high trade barriers, customer and investor protections impede progress in implementing e-banking initiatives on a large scale in many developing countries.

The ability to mainstream small and medium scale enterprises (SMEs) towards e-banking, the availability of and access to quality data and banking information is required for SMEs in developing countries to move towards e-banking. Similarly, on-line credit information will enhance SME's ability to secure financing.

**(2) Indian Experience:**

As the Instant Article is on *Internet Banking System* in India, so the main focus of the instant work is to closely analyze and know that what are the challenges which are being faced by our country India regarding Internet Banking System. At the end of the Article, some more conclusive and more efficacious suggestions will be produced for more betterment as well as popularity of Internet Banking Service amongst common people of India.

In India, currently, there are two types of customers - one who is a multi-channel user and the other who still relies on the branch as the anchor channel. The primary challenge For banks is to provide consistent service to customers irrespective of the kind of channel they use. The channels broadly cover the primary channels of branch (i.e., teller, platform, ATM), phone (i.e. call centre, interactive voice response unit), and internet channel (i.e., personal computer., browser, wireless) banking. Banks in India have been working towards a vision that includes transformed branches, enhanced telephone services, and leading-edge internet banking functions that provide a consistently positive multi-channel experience for customers. Even for PSBs, the ongoing and

future investments in technology are massive. It is expected that the provision of financial services through a versatile technology platform will enable these banks to acquire more customers, cut-costs, and improve service delivery. Though many positive signs are already visible in India, including a higher acceptance of technology by banks and customers.

**(3) Challenges of E-Banking System in India:**

First, in India, there is a risk of the emergence of a *'digital divide'* as the poor are excluded from the use of the internet and so from the financial system. Empirical evidence shows that richer countries possess higher concentrations of internet users (higher than income concentration) in comparison with poorer countries. In India (where the poverty ratio is still adverse which is over 25 per cent of total population), it is likely that wealthier people will rapidly migrate to e-banking platforms leaving the poor to bear the cost of the physical infrastructure of branches in the form of transaction fees or non-competitive interest rates on their deposits.

Second, even today, the operational environment for public, private and foreign banks in the Indian financial system is quite different. A handful of foreign banks operating in India first offered e-banking services to their customers such as ATMs, computerized monthly statements, secure online operations, etc.

Third, confidentiality, integrity and authentication are very important, features of the banking sector and very successfully managed in the developed countries. But-it is not so in India.

Fourth, in India especially e-banking system has created many new challenges for Bank Management and Regulatory/Supervisory authorities so for, which are not easy to short-out.

Fifth, there are some serious implications of international e-banking. It is a common argument that low transaction costs potentially make it much easier to conduct cross-border banking electronically. For many banks, cross-border operations offer an opportunity to reap economics of scale. But cross-border finance also needs a higher degree of cross-border supervision. Such cooperation may need to extend to similar supervisory rules and disclosure requirements (for efficiency and to avoid regulatory arbitrage) and some harmonizing of legal, accounting and taxation arrangements. The real question here is whether India at the present juncture is adequately prepared to face the consequences of cross border banking?

**(4) Future Perspective for Internet Banking in India:**

Although it is an established reality that Electronic Banking System is the wave of the future but unfortunately the practice of e-banking in India is still quite limited. Though the 'practice' of e-banking in India is quite limited, there is a huge potential for it given its impact on the cost and efficiency of financial intermediation. As suggested by Claessens, Glaessner and Klingebiel (2001), developing countries in general have an advantage as they can learn from the experience of advanced economics. It may even be possible for them to leapfrog straight to the most advanced technologies. They can put in place appropriate policies (especially regarding security aspects) before e-banking becomes widespread rather than reacting to it at the time of implementation. In this section, an attempt is made to see how India can exploit the ongoing e-banking wave to reap maximum possible benefits without incurring any major risks.

As regards the problem of a possible *'digital divide',* there is a lot one can learn from the experiences of other developing countries to include the poor within the net of e-banking.

As regards PSBs within India, one certainly sees a paradigm shift in their behaviour triggered by the heightened competition. There has been a strong realisation that technology is not just an enabler but a driver of business. At least the first phase of technology adoption has been more or less completed within PSBs, and involved large-scale computerization of branches and operations for better operational efficiencies. There has been some reorientation of staff in terms of newer skills, though at a lower level. There is also an awareness that such large-scale computerization is not going to help in other operational areas like back-office functions, management information systems (MIS), fraud prevention, marketing and higher value-added business. As stated earlier, security concerns are an important factor for many internet users in India who are shying away from the PSBs.

PSBs can try to change this situation by creating a positive work culture and gaining the confidence and support of all the employees for organizational goals. What matters for success is leadership and not ownership, whether for private or public entity. As suggested by a Bureau of Indian Standards paper on 'Risk Management Principles for E-Banking', a bank's board of directors and senior management should review and approve the key aspects of the security control process,

which should include measures to authenticate the identity and authorization of customers, promote non-repudiation of transactions, protect data integrity, and ensure segregation of duties within e-banking systems, databases and applications. Top leaders in PSBs should ensure that their staff members have the relevant technological expertise to assess potential changes in risks, which may necessitate significant investment in staff training and in hardware/software. The general tendency of PSBs is to contract out operations to service providers.

But this makes them vulnerable to problems with these service providers. Also, in the process of adoption of new technology, a due role has to be played by experts in the banking field, who have better insights about the banks' functions and operations as compared to technocrats in order to avoid the havoc created by inefficient applications of technology. As an article in the Economist observed, "few things have promised so much and delivered so little as customer (or client) relationship management (CRM) software. In implementing CRM, insiders reckon that four out of five such projects fail to deliver the goods. But that has not stopped banks and other financial institutions from piling layers of CRM software on top of one another.

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