

Critical Study of Internet Banking in India

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Abstract – Internet Banking, also known as net-banking or online banking is an electronic payment system that enables the customer of a bank or a financial institution to make financial or non-financial transactions online via the internet. This service gives online access to almost every banking service, traditionally available through a local branch to the customers. Internet banking can be accessed by any individual who has registered for online banking at the bank, having an active bank account or any financial institution.

Key Words – E-Banking, Wireless, Legal, Automated, Banking

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I. INTRODUCTION:

The concept of e-banking was launched by programmers working on a banking website. The most important progress in the field of finance is e-banking. In addition, in recent times mobile, WAP (Wireless Application Protocol) allowed banking and digital TV banking have also been part of electronic banking. This started with the use of automated teller machines and has therefore introduced banking via telephone, direct bill payment, electronic transfer of funds along with internet banking. It has been analysed that Internet banking will prove to be the most common way to perform financial transactions in the future. A fairly recent idea is e-banking in India. In collaboration with the Reserve Bank of India, the Indian Administrative Structure has taken a range of steps to assist in the smooth growth and development of e-banking in India. It was the year 2000 when the IT Act was passed by the Government of India. The Act came into force on 17 October 2000 and gave all transactions related to electronic commerce legal recognition; the Central Bank of the Country continually reviews the development of e-banking in India. In the sense of e-banking, multiple processes were introduced in early 2000.

It was in the middle of the 1990s that the first Electronic Fund Transfer was placed into service. It was eventually strengthened during 2003 and an automated Special Fund conversion was added. The Indian Financial Net (INFINET) was subsequently set up in 2005 as the National Electronic Fund Transfer (NEFT). INFINET, a satellite network deployed over

a wide area (WAN) using VSAT (Very Small Aperture Terminals). To name a few, ranging from basic communications, unified fund management system, MIS, EFT, 24*7 banking, electronic clearance systems, etc., INFINET is used for the deployment of different inter-bank and intra-bank applications.

Cheque Truncation Scheme (CTS) was developed in order to develop the effectiveness of the cheque clearing system and to allow quicker clearance of out-station cheques. With the establishment of the ID RBI, Institute of Development for Research in Banking Technology, the implementation of new technology in the banking sector has seen considerable pace. As a research Centre, it promoted the expansion of immense assistance to the banking sector.

II. INTERNET BANKING:

In today's technologically driven dynamic market scenario, the Internet is a vital medium used for correspondence. It also plays an important part in functioning as a knowledge and intelligence resource. Most banking and finance institutions have now preferred to communicate with their customers through internet banking. During the last decade, Internet banking has experienced tremendous growth. The World Wide Web has contributed to Internet banking being created. In 1980, the notion of making purchases through the Internet first emerged. In New York City of America in 1981, this revolutionary method of doing business was first of all evaluated. Chase

Manhattan, Citi bank, Chemical Manufacturers Hanover, the big banks of New York City, gave their customers access to "home banking." Home banking used fax machines and telephones to provide its clients with services at the time. Growing internet services have further expanded home banking. Online banking was launched in the mid-nineties in United States. U.S.A financial institution that played a significant role in the growth of the programme was Stanford Federal Credit Union. The banks' first and foremost online website was founded by the Stanford Federal Credit Union. In 2001, it was estimated that eight banks in the United States each had around one million internet customers using online services. There were nearly 19 million internet users using bank accounts. Laws and regulations relating to financial systems were adopted in 2005. There were also about 54 million households in the United States who had internet access to bank accounts. Internet banking is expanding its wings in 2011. Online transfers were also favored by late adopters. Online banking was first launched in the early nineties by ICICI bank in India. Furthermore, HDFC and CITI Bank opted for Internet banking in the year 1999. Online banking platforms are gathering attention in the present scenario. Online banking provides such characteristics in the form of bank statements, automated payment of bills, loan approvals, and consolidation of accounts in order to enable customers to track their entire accounts at a single location. Online banking is cost-effective because, in contrast to every other e-banking channel, the cost per transaction is low and the revenue received per client is high. Ease in financial transfers and the availability of 24*7 are also several distinctive features that have drawn clients of banks to use internet banking. Digital banking has now been of greater importance to banks because it decreases the footfall of bank branch customers. It also lowers the bank staff's paper work, which can be taken as a major saving for the branches of the bank. Online banking has a long way to go.

A working group on Internet banking has been set up by the Reserve Bank of India with a view to discovering different features in the sense of Internet banking. In specific, (i) Technology and security concerns, (ii) legal issues, (iii) regulatory and supervisory issues have been highlighted as core aspects relating to Internet banking. The recommendations laid down by the committee were properly recognized by the country's central bank. The following recommendations have been set down for compliance by the banks. Other banks could, on the basis of the original study, be influenced by those problems.

- i. Technology and security standards: emphasized that banks should concentrate on developing a framework alongside data base management with a well-described bank security strategy properly decided by the board of directors, implemented (16) a reasonable means of accessing power over

data, networks and software applications, telephone lines, libraries, software systems, etc. Banks can also be used for in-depth surveillance and for retaining high standards of access firewalls.

For secure internet transfers, banks can make use of public-key infrastructure. The redundant programmes should be taken out of operation in addition to this. In addition, any security breaches should be documented and steps required to frame future policies should be taken. Banks should take into account that all forms of risks must be carefully treated. In addition to this, physical protection has to be applied to all websites and information systems. Proper and adequate technology and appropriate scheduling processes need to be maintained by banks in order to ensure a backup of the data. In order to certify revival without risking any damage to the transactions in compliance with the security protocol, the records backed-up must be checked from time to time. Banks should maintain a suitable facility for record keeping from a legal point of view. Safety services should also be adequately checked for routine transactions.

- ii. Legal Issues: Taking into account the current legal situation, it has been mandatory for banks to examine, in addition to developing their identity, the authenticity and character of the prospective client. The authentication mechanism introduced by the banks with a view to validating the needs of the customers should also be lawfully recognised from a regulatory point of view as an alternative to signature. In addition, banks can keep sensitive details about the customer's accounts private. Other banks in India should take into account the rights and liabilities imposed at the discretion of customers using certain Internet banking services and should also ensure that customers are safe from risks emerging from Internet banking.
- iii. Regulatory and Supervisory Issues: It takes into account that only accredited and administered banks operating in India can make the products provided by Internet banking accessible to residents of India and that they have a significant presence in the region. More Internet banking goods can be limited to account holders only. In addition, facilities need to be limited to the goods offered in the currency of the home country. In addition, the Internet banking facilities of Indian banks with branches abroad will be made open to international customers.

In addition to the above, banks can take the following points into account:

- Any banks able to offer transactional services that take place with the aid of the Internet need prior approval from the RBI.
- The banks should necessarily notify the RBI of any breach and failure of the security agreement and mechanism.
- Similarly, the recommendations provided by the RBI (16) with respect to risks, along with the controls to be taken into account in relation to computers and telecommunications, would relate to internet banking.
- Banks should establish outsourcing protocols for the control of risks resulting from service providers belonging to a third party.
- Through the increasing reputation and attractiveness of the e-commerce establishment of Inter-bank Payment Gateways, the completion of such transactions has turned out to be mandatory.
- Online transfer can be made only by inter-bank payment gateways, and only certain institutions who are members of the cheque clearing scheme are eligible to be part of the same.
- Capacity on the part of inter-bank transfers must occur in order to guarantee the settlement of gross and net payments. Each and every comment must be intra-day and intra-day to the extent practicable.
- Each and every settlement must be intra-day and in real time, probably
- All transactions must be validated after the regulatory system has been developed, it is important to ensure that all transactions must be approved digitally by every authorizing body. With the aid of a transparency guide, banks should make a compulsory disclosure specifying the obligations, risks and duties of consumers at the time of carrying out business through the Internet.
- Hyperlinks from banks' websites raise the issue of reputational damage much of the time. However, these connections must not be a source of inaccurate perception on consumers, thereby making customers think that banks do not sponsor any commodity not connected to banking.

III. CURRENT SCENARIO OF INTERNET BANKING:

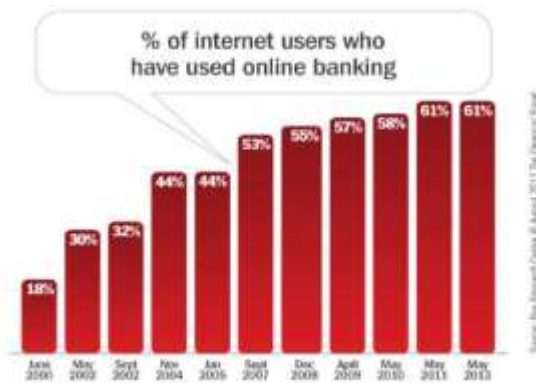
Introduction of emerging technologies, the financial services sector has undergone dramatic shifts over the past decade. This culminated in the evolution of e-commerce, contributing to the growth of e-banking. E- Banking has presented its customers with a brand new banking experience. As electronic banking includes ATMs, Online banking, telephone banking, telebanking, e-banking has also been noted. Customers now have access to all emerging distribution platforms and are making use of these new channels to sell their goods and services. As a distribution channel, ATM has been widely embraced and achieved tremendous access as a delivery channel mode for banks. It has also managed to boost the consumer base. ATMs are instruments powered by computers. They don't need individual assistance. With the help of ATM's (Automated teller machines) without any human resources intervention, consumers will check their balance; make withdrawals. Smart cards are chip-based cards used without the need for any pins to allow transactions. The value is debited and the balance comes down as the card is used to make the charge. Tele- Banking is telephone banking. It is often used by banks for the selling of services. The customer will conduct non-cash transactions on the phone at any time and at any location. As a part of mobile banking, it is now being replaced fall in prices for telephone calls. Another breakthrough that contributed to the consumers' banking experience was online banking. Banks can sell their goods and services online (via the internet) to their customers via internet banking. Market dynamics also serve as a driving force for banks to provide their clients online services. Protection is, however, a significant issue and needs to be carefully handled. The security problem is a significant factor that limits e-banking customers as customers fear sensitive information leakage and illegal hacking.

Global popularity has been won by Internet Banking. In Singapore, Korea, Spain and Switzerland, it is popular. The first country to vote for E-banking was Finland. In the US, e-banking is also rising at a fast rate. Its rate of annual growth is 60 per cent. In the year 2000, relative to other foreign countries such as Singapore and Lucknow division Korea, where the proportion was 5 to 6 percent, there was just about one percent of customers belonging to the upper and middle income classes who carried out financial transactions through the internet.

Online banking in India has taken hold. In India, the development of e-banking has been primarily funded by the Central Bank of India, along with the country's government and administrative structure. Efforts have been made to develop an infrastructure that is safe, effective and automated.

It was in 1996 that ICICI first introduced Internet banking in the region. Further, all electronic transfers have been lawfully recognized by the Information Technology Act, 2000, with effect from 17 October 2000. As a result of the rise of internet use, internet banking in India can expand.

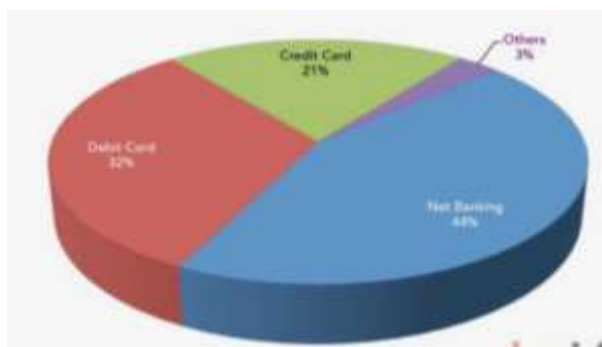
Figure 1.1: Internet users using online banking



Source: Pre Research centre@ August2013 The Federal Brand

The above table shows the number of Internet banking users that rose from 2000 to 2013. Just 18 percent of Internet banking users used online banking in the year 2000. In 2013, the figure steadily rose to 61 percent, reflecting a dramatic rise in the number of online banking clients.

Figure 1.2: Digital Payment Gateway of India in the year 2013



Source: IMRB International, December 2013

According to the latest IAMAI data on the issue of digital money on account of INR 85,800, it was revealed that India experienced a 40 percent growth rate in the digital payment industry in the year 2014 as a result of the enormous acceptance of plastic money and the Internet. A growth primarily accumulated across the e-commerce sector would witness the digital payment industry.

IV. CONCLUSION:

By 2023, the e-commerce sector, previously estimated at \$16 billion in 2013, is projected to expand by \$56 billion. In the background of India, there is a rising step in the idea of Internet banking.

Banks in India have made genuine attempts to implement facilities focused on IT. But there is still a broad scope for people to make Internet banking appropriate. Online banking has gained prominence among the millennial generation since they have understood and are making widespread use of the advantages of internet banking. Online banking would be the perfect form of banking in the years to come.

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