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AN INTRODUCTION TO ELECTRONIC BANKING: NEED AND SIGNIFICANCE

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Introduction to Electronic Banking

Financial services industry has recently been open to historic transformation, due to e-development taken place and advancing rapidly in all areas of financial intermediation and financial markets e-finance, e-money, electronic banking, e-brokering, e-insurance, e-exchanges, and even e-supervision. The information technology (IT) now becomes the most significant factor in the future development of banking, influencing banks' marketing and business strategies. In recent years, the adoption of electronic banking started to occur quite extensively as a channel of distribution for financial services due to speedy advances in IT and intensive competitive banking markets. The driving forces behind the speedy transformation of banks are influential changes in the economic environment innovations in information technology, innovations in financial products, liberalization and consolidation of financial markets, deregulation of financial intermediation etc. These and other factors make it complicated to design a bank's strategy, which process is threatened by unforeseen developments and changes in the economic environment and therefore, strategies must be flexible to adjust to these changes Ajam and Nor (2013). The financial services market is continuing to change rapidly, which brings into question whether traditional banks, as they are now structured, will actually continue to exist by the end of the decade or even survive through the next five years. Competition has been increasing for some years within traditional financial centers, amongst the banks themselves. A significant challenge comes from international banks offering technology-based financial services across geographical boundaries and thereby competing with traditional banks for their best business within their own back yard. Indeed, there is a growing concern that electronic banking is not yielding the anticipated results, creating a gap between the actual returns and the proposed objectives and thereby losing a large amount of investment. This especially concerns the interaction with clients and thereby increased and more rapid access to new markets. This has thrown the spotlight onto the problem of change from one particular delivery channel to another. This is extremely important since the implementation of electronic banking may have radical implications on a bank's structures, business processes, products and services and value flows with clients and other parties. Growth of Electronic banking in a country depends on many factors, such as success of internet access, new online banking features, household growth of internet usage, legal and regulatory framework. Electronic banking can offer speedier, quicker and dependable services to the customers for which they may be relatively satisfied than that of manual system of banking. Electronic banking system not only generates latest viable return, it can get its better dealings with customers. Now-a –day's banking sector is modernizing and expanding its hand in different financial events every day. At the same time the banking process is becoming faster and easier. In order to survive in the competitive field of the banking sector commercial banks are looking for better service opportunities to provide their customer.

Definition of Electronic Banking

Banks have used electronic channels to do banking operations with both domestic and international customers. Currently, banks are mostly using electronic channels to receive instructions and deliver their products and services to their customers. Although the range of services provided by banks over the electronic channel varies widely in content, this form of banking is generally referred to as electronic banking (Azouzi, 2009). Electronic banking is the newest delivery channel for banking services. Banks have used electronic channels for years to communicate and transact business with both domestic and international corporate customers. With the development of the Internet and the World Wide Web (WWW) in the latter half of the 1990s, banks are increasingly using electronic channels for receiving instructions and delivering their products and services to their customers. This form of banking is generally referred to as electronic banking or Internet banking, although the range of products and services provided by banks over the electronic channel vary widely in content, capability and sophistication. Electronic banking is defined as the automated delivery of new and traditional banking products and services directly to customers through electronic, interactive communication channels. The definition of electronic banking varies amongst researches partially because electronic banking refers to several types of services through which bank customers can request information and carry out most retail banking services via computer, television or mobile phone (Daniel, 1999; Mols, 1998; Sathye, 1999; Burr (1996) explored it as an electronic connection between bank and customer in order to prepare, manage and control financial transactions. Electronic banking can also be defined as a variety of following platforms: (a) Internet banking (or online banking), (b) telephone banking, (c) TV-based banking, (d) mobile phone banking, and electronic banking. As online Internet banking and mobile phone banking are the fastest developing areas. Electronic banking includes the systems that enable financial institution customers, individuals or businesses, to access accounts, transact business, or obtain information on financial products and services through a public or private network, including the

Internet or mobile phone. Customers access electronic banking services using an intelligent electronic device, such as a personal computer (PC), personal digital assistant (PDA), automated teller machine (ATM), kiosk, or Touch Tone telephone. While some literature restricts the use of the term to internet banking (i.e. Daniel 1999), elsewhere the term is limited to retail banking (Aladwani 2001) or both retail and corporate banking (Simpson 2002). From the customers' point of view, Aladwani, (2001) found that electronic banking provide faster, easier and more reliable services to customers. However, customers are still hesitant to use electronic banking services, because they are concerned with security issues, and they may do not have sufficient ability to deal with the applications of electronic banking (Ayrga, 2011).

Review of Literature

Pikkarainen et. al. (2004) defines internet banking as an "internet portal, through which customers can use different kinds of banking services ranging from bill payment to making investments". With the exception of cash withdrawals, internet banking gives customers access to almost any type of banking transaction at the click of a mouse (De Young, 2001). Indeed the use of the internet as a new alternative channel for the distribution of financial services has become a competitive necessity instead of just a way to achieve competitive advantage with the advent of globalization and fiercer competition (Flavián et. al. , 2004; Gan et. al. 2006) . Banks use online banking as it is one of the cheapest delivery channels for banking products (Pikkarainen et al., 2004) . Such service also saves the time and money of the bank with an added benefit of minimizing the likelihood of committing errors by bank tellers (Jayawardhena & Foley, 2000). As Karjaluoto et al. (2002) argued that *'banking is no longer bound to time and geography. Customers over the world have relatively easy access to their accounts, 24 hours per day, and seven days a week'*. The author further argued that, with internet banking services, the customers who felt that branch banking took too much time and effort are now able to make transactions at the click of their fingers. Robinson (2000) believes that the supply of Internet banking services enables banks to establish and extend their relationship with the customers. There are other numerous advantages to banks offered by online banking such as mass customization to suit the likes of each user, innovation of new products and services, more effective marketing and communication at lower costs (Tuchilla, 2000), development of non-core products such as insurance and stock brokerage as an expansion strategy, improved market image, better and quicker response to market evolution (Jayawardhena & Foley, 2000). The use of technology in the banking sector is by no means new. Humphrey, et al. (2000) mention the use of Information Technology and computerisation in banks in the 1960s and 70s which enhanced efficiencies and reduced staffing needs. The functions that were touched upon were mostly restricted to withdrawals, deposits, balancing and other internal operations. This resulted in a very conspicuous positive impact on the ease of customer banking while lowering operational costs. These were described by Humphrey et al. (2000) as the internal technological wave. This led to an external technological wave in the subsequent decades. It involves the reduction in the 'face-to-face' interactions and exploited the use of the rapidly proliferating electronic delivery means. The use of ATMs, Internet banking, wire transfers; EFTPOS and credit cards have shrunk the conventional wallet.

In spite of the identified benefits and tailor made services internet offers, some bank customers still pay bills in more traditional ways as there are some factors slowing down customers' adoption of internet banking (Laukkanen 2007). Consumers normally adjust to innovation at slow pace as they need to adjust their existing preferences and practices (Ramadhan, 1987).Thus successful innovation can only start after the initial resistance has been overcome. Musiime (2011), Amin (2007) and Davis (1989) identified many factors which they concluded that they affect customer's choice in adoption of new technology. These factors include perceived security, internet experience factor, internet prestige, internet skills, marketing exposure, reliability and demographic characteristic.

Stewart (1999) claimed that the failure of the internet in retail banking is largely attributable due to the lack of trust consumers have in the electronic channels. Provision of infrastructural facilities is another factor that could lead to quicker diffusion of innovation. Hiltz, Johnson, & Turoff (1986) found that computer mediated communication is less personal and socioemotional than face to face exchanges. Tomiuk and Pinsoneault (2001) concurred that the lesser degree of richness and sound presence of electronic banking environment will affect banks ability to create a trusting relationship between their customers and employees. On the other hand, for those customers whose relationship is primarily based in efficiency of services, electronic banking will be an attractive alternative. There are also several other theories relating to consumer behaviour what may explain the rate of adoption and degree of acceptance of internet banking. Interestingly as Doll, Raghunathan, Lim and Gupta (1995) also claimed that product information content on the web design and layout are also important factors that affect customer satisfaction. Mattila and Mattila (2005) also claimed that security has been widely recognized as one of the main barriers to the adoption of internet is dependent upon the availability of internet service and interestingly on a number of several other social and psychological factors as well. In the banking industry, bank-corporate customer relationship remains a key issue as businesses devote to keeping a higher competitive advantage in the market (Kandampully & Duddy 1999). The relationship between banks and corporate customers is the most important factor in the

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success of new financial services (Easingwood & Storey 1993). Internal organizational elements like innovative culture, technology readiness for corporate clients, employees, and top management support for business were used to explore the relationship subsequently for solving problems pertained to resources limitation within SMEs. Eventually, few empirical studies had examined the influence of internationalization and corporate electronic banking on firm performance (Annavarjula & Beldona 2000).

Routray (2008) found mobile and wireless communication devices were becoming enablers for organizations to conduct business more effectively and efficiently. One of the most effective applications is mobile banking (m-banking). The increased flexibility and mobility feature of wireless ATM and its bandwidth on demand function is motivating a large number of carriers towards deployment of the WATM networks. Oghenerukevbe, (2008), internet banking provides alternatives for faster delivery of banking services to a wider range of customers. The increasing popularity of internet banking, have attracted the attention of both legitimate and illegitimate online banking practices. Criminals focus on stealing user's online banking credentials because the username and password combination is relatively easy to acquire and then relatively easy to use to fraudulently access an internet banking account and commit financial fraud. To alert users, many banking sites are now including Security Indicators (SI) to their sites. Hua (2009) conducted an experiment to investigate how user's perception about online banking was affected by the perceived ease of use of website and the privacy policy provided by the online banking website. Security is the most important factor influencing user's adoption Ajam and Nor (2013). Many banks in India want to invest in ATMs to reduce branch cost since customers prefer to use them instead of a branch to transact business. The financial impact of ATMs is a marginal increase in fee income substantially offset by the cost of significant increases in the number of customer transactions. The value proposition however, is a significant increase in the intangible item „customer satisfaction‟. The increase translates into improved customer loyalty that in result in higher customer retention and growing organization value. Internet banking is a lower-cost delivery channel and a way to increase sales. Internet banking services lies in the increased retention of highly valued customer segments.

Need and Significance of the Electronic Banking

A strong banking industry is important in every country and can have a significant affect in supporting economic development through efficient financial services (Salehi and Azary, 2008, Salehi et al. 2008). In India the role of the banking industry needs to change to keep up with the globalization movement, both at the procedural level and at the informational level. This change will include moving from traditional distribution channel banking to electronic distribution channel banking. Given the almost complete adoption of electronic banking in developed countries, the reason for the lack of such adoption in developing countries like India is an important research that will be addressed by this study. In other words, despite this growth of IT worldwide, Indian banks continue to conduct most of their banking transactions using traditional methods. Understanding the reasons for the lack of such technological innovation in developing countries such as India will develop a fruitful research. A strong banking industry is important in every country and can have a significant affect in supporting economic development through efficient financial services (Salehi and Azary, 2008, Salehi et al. 2008). Indian banks have rapidly introduced innovative banking technologies and electronic banking services in recent years. Almost all banks have invested in expanding and improving the IT systems and a number of new electronic banking services have been developed.

All major banks have declared e-business as one of the core strategies for the future developments. At the same time, electronic banking acceptance depends probably on bank service quality, customer preferences and satisfaction. One of the main reasons for the growth of electronic banking is that, if handled correctly, it can significantly lower the cost of delivering products and services. There are not many inventions that have changed the business of banking as quickly as the electronic banking revolution. World over banks are reorienting their business strategies towards new opportunities offered by electronic banking. Electronic banking has enabled banks to scale borders, change strategic behaviour and thus bring about new possibilities. Electronic banking has moved real banking behaviour closer to neoclassical economic theories of market functioning. Due to the absolute transparency of the market, clients (both business as well as retail) can compare the services of various banks more easily. On the internet, competitors are only one click away. If clients are not happy with the products, prices or services offered by a particular bank, they are able to change their banking partner much more easily than in the physical or real bank-client relationship. From the banks' point of view, use of the internet has significantly reduced the physical costs of banking operations. As discussed by Turner (2009), progress in information technology has slashed the costs of processing information, while the internet has facilitated its transmission, thus facilitating change in the very essence of the banking business. Around the world, electronic banking services, whether delivered online or through other mechanisms, have spread quickly in recent years. The adoption of electronic banking in everyday transaction of customers has made it more than just a complement to traditional banking but has resulted in customers perceiving electronic banking as a modern way of doing banking. Electronic banking is strongly promoted to bring about a change in consumers' banking behaviour.

Conclusion

Electronic banking is employed as a strategic tool by the global banking sector to pull and hold customers. The financial sector is metamorphosing under the impact of competitive, regulatory and technological forces. Financial institutions especially the banking sector is currently in a transition phase. The banks have put themselves in the World Wide Web to take advantage of the internet's power and reach, to cope with the accelerating pace of change of business environment.

The Internet has played a very significant role in changing and helping people in the way they interact with each other and the way they manage their businesses. As a result of the Internet, electronic commerce has emerged, allowing businesses to more effectively interact with their customers and other corporations outside their companies. One industry that is using this new communication channel to reach its customers is the banking industry. Electronic 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. Electronic banking comprised of interconnected communications networks; advanced computer hardware and software tools and services; established business transaction, data exchange, and interoperability standards; accepted security and privacy provisions; and suitable managerial and cultural practices. Internet banking products and services can include wholesale products for corporate customers as well as retail products for consumers. In internet banking system the bank has a centralized database that is web-enabled. Now-a-days banking is known as innovative banking. With the advent of online banking, electronic funds transfer and other similar products & services for funds transfer within quick time which was impossible a few years ago. With networking and interconnection new problems are taking place related to security, privacy and confidentiality to electronic banking transactions.

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