CHALLENGES IN E-BANKING

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ABSTRACT

The information technology has transformed the functioning of businesses worldwide. It bridged the gaps in terms of reach and the coverage of system and enable better decision-making based on latest and accurate information reduced cost and overall improvement inefficiency many new processes, products and services offered by banks and FIs are IT centered. Never delivery channels to customer’s automated Teller machines, networkingon ATMs inform of shared payment networks, internet banking & implementation of care Banking are few examples. In Indian context banking section is the beneficiary of inroads made by IT. The effective integration of technology with sound business process and re-engineering is leading to exponential growth for which achievements of ICICI Bank is the best example.

The e-banking revolution has changed the banking business very much than any otherinvention. Worldwide banks are reorienting their business strategies towards newopportunities offered by e-banking.E-banking has enabled banks to scale borders, change thestrategic behavior and thus bring about new possibilities. E-banking has made real bankingbehavior classes to neo classical economic theories of market functioning. Due to absolutetransparency of the market, clients are able to compare services of more banks easily. Also theservices are rendered to them very fastly.

THE E-BANKINC SCENARIO

An analysis made by Nsauli and Schaechter form IMF shows that internet banking isparticularly widespread in Austria, Korea, Scandinavian countries In Singapore, Spain andSwitzerland more than 75% of banks offer such services Scandinavian countries havelargest number that is One third of total customer taking advantage of e- banking In early2001, approximately 60% of e-banking in U.K. was concentrated in financial sector. As perUNCTAD online banking in US is growing at 6o% no of online increased to 15 million by2003. The banks in US are using the web to reach opportunities in three different categoriesnamely to market information, to deliver banking products and services and to prove customerrelationship. In 2001 over 50% of US Banks were offering e-banking services. While inEurope internet is differentiating the banking industries into three separate businesses i.e.production, distribution and advice driving force behind it are emergence of new morefocused business model new technological capabilities that reduce banking relationship andtransaction costs and high degree of uncertainty due to new entrants. E-banking is inevolutionary stage in Europe.

In Asia the major factor restricting the e-banking is security. Though many countries areconnected through Internet access to high-quality e-banking products is still an issue.Generally Asian banks are just offering basic services through internet banking thandeveloped countries. But people find better prospects of e-banking in Asia because UDCsneed a large network of banking facilities which requires huge investment if banks are openedlike “Brick & mortar banks” Now the virtual Banks i e internet banks are opened at leastpossible cost with enhanced speed and efficiency recently most banks have combined new electronic delivery channels with traditional brick and mortar branches called as 'brick and click' banks.

INDIAN EXPERIENCE

To overcome the rising competition Indian commercial banks adopted e-banking as one of initiative. Because, the new private banks and foreign banks have sharpened competitive edge. This led to limit the branch network but increased the demand of better skilled workforce.

India has two type of customer one using the multi channel and other selling on traditional banking. Banks are required to meet the demand irrespective of customer type presently Indian banks are required to invest in both traditional mode of banking and internet banking. They have to gradually transform to e-banking by time. This is because only 1% of high and middle income group are doing e-banking, which is 5-6% in Singapore and South Korea. As per RB1 report 2001-02 major banks were offering e-banking or planned to do. This includes ICICI bank, IDBI, HDFC, Industrial bank, CITY bank, UTI etc. In the same year out of estimated 0.9 million Internet uses, 17% (approx were reported using banking) this show high growth potential for e-banking in In4ia, Which is in early stage of development. But it is becoming strategic necessities for most of banks due to increased competition.

As per Nasscom internet survey in 2001 the no. of active internet subsesiber is expected to increase to 18 million while uses base to 30 million by 2004. More than 200 and home have internet connectivity. Nasscom-Mckinsey study shows the (2002) better prospects of e banking in India.

Challenges before Indian Economy

In India there is possible risk of emergence of 'digital divide' 26.1% of people leaving below poverty line will be poor will be excluded from use of Internet. The wealthy people will rapidly switch over to Internet banking. Leaving the cost of physical infrastructure to be bear by poor.

Operational environment for public and private banks is quiet different, New Private generation bank adopt the online banking rapidly but public bank can't do It due to legacy of manual practices. Other problems involved are security risks, network downtime, scarcity of trained personnel expensive system upgrades.

A research study shows that in comparative performance the turnover/employee ratio rose in PSBS but it double in private banks. This is due to combination of high technology and skill. Also in India banking sector's if specialize in lending to small business segment (SMEs) which suffer from generic problem to provide quality data. B also became reluctant to long term lending all this asymmetry and non-transparent data are impediment to e banking.

EMERGING ISSUES AND CHA IN E-BANKING

The changing financial scenario brings new challenges for bank management and regulatory and supervisory authorities. The major ones stem from increased cross - border transaction due to lower transaction cost and greater edge of banking activities.

Regulatory Risk

So e-banking services are provided form anywhere in the world there is danger that banks might avoid supervision and regulation. To meet this situation licensing system could be used as norm.

Legal Risk

e-Banking suffers from legal risk. Banks have high potential to expand beyond geographical boundaries. Same times they are not fully versed in jurisdiction local laws and regulations. In absence of license the virtual bank lacking contact with host country supervises find it difficult to stay abreast of regulatory changes.

Money laundering is another risk of e-banking because of anonymity it affords. Onceaccount is open it is impossible to trace whether nominal account holder is transacting wherethe transaction is taking place. To combat strong vigilance is required for monitoring onlinetransaction and verifying individual's identity.

Also in report (2000) of organization of economic cooperation and development isFinancial Action Task Force. Raised the question which regulatory authorities willinvestigate the e-banking crossing national border. Solution to it lies in coordinatinglegislation and regulation internationally to avoid the safe havens for criminal activities.

Operational Risk

The dependence on high tech system makes security and system availability the mainproblem. Security threats can come from inside and outside the system so banking supervisionand regulator should ensure that appropriate practices are in place to guarantee theconfidentiality of data, and integrity of system and data. Banks regulatory and securitypractices should be regularly tested and reviewed by outside e to check vulnerabilitiesand recovery preparedness. Capacity planning to address, increasing transaction volumes isneeded. So risk arising out of inaccurate processing of transaction, non-enforceability ofcontracts, compromises in data-integrity, data privacy and confidentiality, unauthorizedaccess to banks services the problem arise due to weakness in design, implementation andmonitoring of bank information system.

Also sometimes bank dependence on outside service providers to operate e-banking ads tooperational risk. The risk of unauthorized data alteration is real in an e-banking environmentboth when data is being transmitted or stored proper access central and technological tools toensure dataintegrity is of utmost importance so banks should be technologically equipped to handle these risks.

Reputational Risk

It is risk of getting significant negative public opinion. Resulting in loss of funds and customer,it happens when system product does not work to expectations, security breach,inadequate information to customer, problem in communication network etc. customer misuseof security precaution.

Many times IT infrastructure is subjected to system outages and cyber-attacks. In 2000,Barclay, Britain's biggest online bank was shut down as customers were having access to eachother accounts. So such cyber crime demand global solutions with strict cyber laws. Bank forInternational settlements (BIS) constituted committee to address the problem and called forprudent risk management for e-money activities. The IAIS and IOSCO are taking similarinitiatives.

Macro-economic challenges

The increasing financial landscape with quick cross-border capital movements macroeconomicpolicy makes is facing challenges.

- If electronic-money money makes the national boundaries to dissolved then how macroeconomic management could be done.
- When provision of e-money make bank to avoid service requirement and when business is conducted in foreign money as easily as in demotic currency then how monetary policy is affected.

When offshore banking and capital flights are at speed of one click. Then how monetary and fiscal policy will be managed, what will be the exchanges rate regime how it will affect forex reserve of any country.

Taxation and e-Banking

Since the technological advances has simplified the banking procedure which has in turn increased the customers intensity of transaction from bank. Internet and wed is now powerful and cost effective medium for banking business. Now the banks can generate revenue through increased account, access fees and benefit from promotion opportunity to cross sell products such as credit cards and loans (Yerkes 1988).

But these increased volume of transaction posed a challenge to taxation and E-business. Because the tax system of mostly, countries conform to old times of limited international trade and capital movements. Since it is difficult to trace the transaction via internet so it is difficult to locate income streams and tax them.

In the world of cyber space it difficult to apply traditional source concept to link an item of income with a specific geographical location. This will make the concept of source based taxation lose came of its importance in the age of E-banking.

There are four key tools which need to focus to address the challenges posed by e banking. Adaptation, Harmonization, Integration and legalization

THE E-BANKING SUGGESTION

Banks must recognize the seriousness of the challenge ahead and develop a strategy that will enable them to leverage the opportunities presented by the internet.

But whether they adopt an offensive or a defensive posture, they must constantly re evaluate their strategy, in the fast-paced e-economy, banks have to keep up with the constantly evolving business models and technology innovations of the internet space.

Just enrolling customers for online banking may not be sufficient until and unless they use the site actively, Banks must make efforts to increase their site usage by customers and effectively co-ordinate the online channel with branches and call centers. Then only they will be able to derive maximum value that includes cost reduction, cross-selling opportunities, and higher customers retention.

Customers have some rational reasons for staying offline. Some of these reasons include usability feature of the site, concerns about security and frequent complaints that signing up is complicated and time-consuming. Banks can solve these problems by refocusing investment on improving the site's basic functionality and user-friendliness, and avoiding advanced features that most customers neither understand nor value. Banks must make efforts to familiarize customers with their sites and show them how easy and efficient the online channels is to use. Integrating the online channel with the rest of the bank is another important issue that banks must focus upon. Integrated channels working together are far more effective than a group of channels working without and coordination.

To facilitate this integration, banks must formulate paths that people in various customer segments are likely to take among the channels. The interactions in each channel can then be

worked these paths. Banks should also offer sufficient price incentives for customers to bank online, in their efforts to build a sound e-banking business.
Banks have to be creative in rethinking organizational structuresand managementprocesses. Traditional banks that are conservative in nature may find itdifficult to attract andretain online talent. Moreover, getting people in the traditional business to help build an e-enterprise would not be an easy task. To make all this happen, requires a major revision ofincentive systems, planning and budgeting processes, and management roles. Banks canexploit the opportunities provided by the Internet if they demonstrate courage, use theirimagination, and take decisive action.

CONCLUSION

E-Banking has become a necessary survival weapon and is fundamentallychanging the bankingindustry worldwide. No country today has a choice whether toimplement or not givenglobal and competitive nature of the economy. Banks have to upgrade and constantly thing ofnew innovative customized packages and services to remain competitive. The invasion ofbanking by technology has created an information age and commoditization of bank services.

Banks have come to realize that survival in the new e-economy depends on delivering someor all of their banking services on the internet while continuing to support their traditionalinfrastructure. The rise of E-banking is redefining business relationships and the most successfulbanks will be those that can truly strengthen their relationship with their customers. Without and doubt, the international scope of E-banking provides new growth perspectives and internetbusiness is a catalyst for new technologies and new business processes.

With rapid advances in telecommunication system and digital technology, banking becomea strategic weapon for banks to remain profitable. Tax issues are being dealt with throughO.E.C.D. codes along with intergovernmental cooperation. The India experience of E-banking isgradually merging with its international counterparts. While the private sector and foreign bankshave been fast in adopting internet technology in client servicing, there is a gradual trend for themajor public sectors and numerous cooperative units to move in the same direction. A mix ofpolicy support and security assurance should propel furtherE-banking adoption in India.
E-banking is a key to universal banking to reap profitability and economic of scale asshown by ICICI Bank.

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