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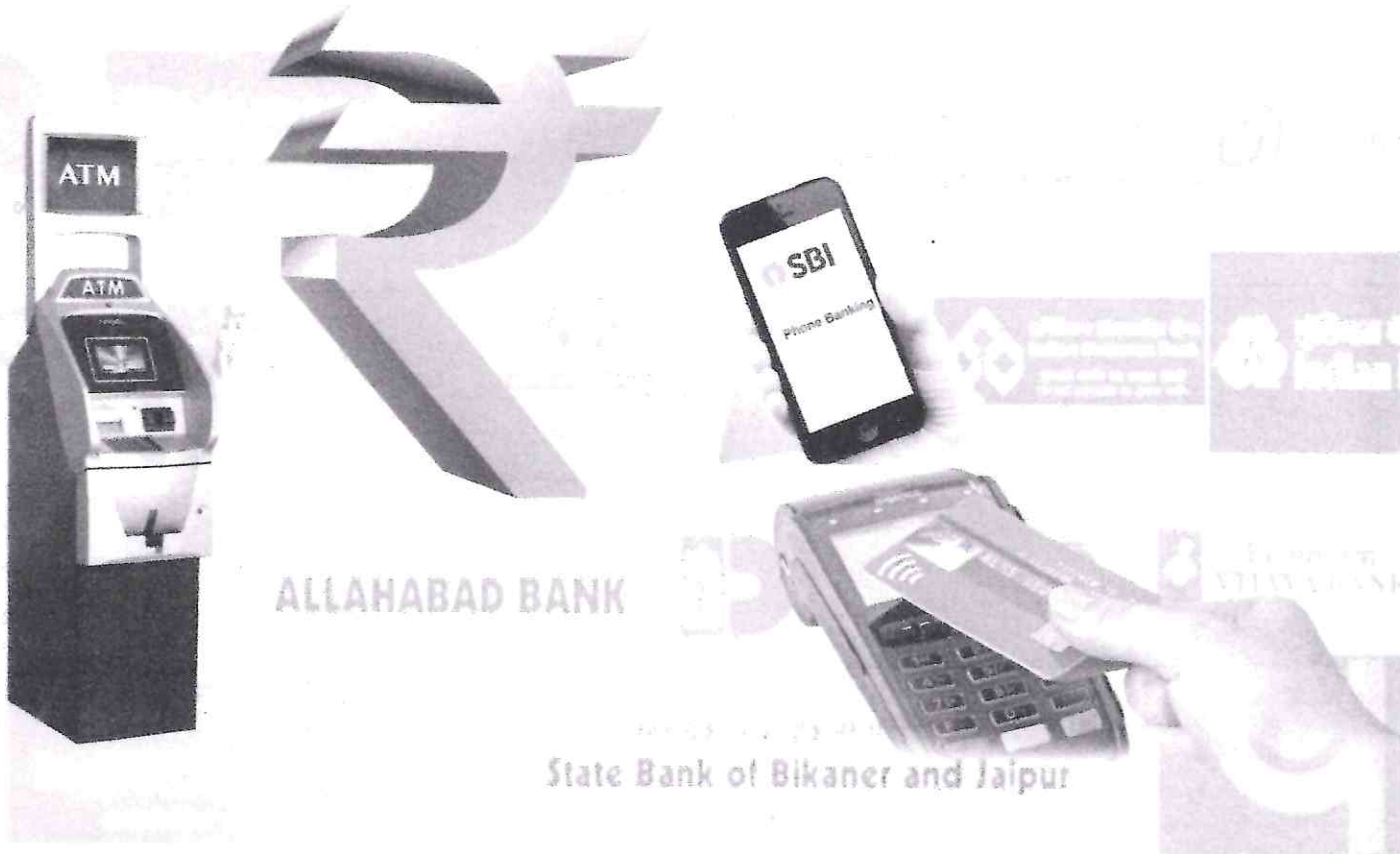
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## Indian Banking Sector Issues & Challenges



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**SWATIDHAN PUBLICATIONS**

## E – Banking Trends in India

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Retail electronic payment system has progressed in the recent years in various countries. We find no exception. Reserve Bank in its Vision statement has set the objective to proactively promote electronic payments with an objective towards less cash society. The formation of National Payments Corporation (NPCI) in the year 2009 has set the stage for development of retail electronic payment which offers enormous opportunity to move towards cashless and less cash society. Using T test, we have tried to assess the contribution of NPCI, we find that significant difference exist in products like Electronic clearing, ECS(Debit), National Electronic Funds Transfer (NEFT), and Card Products when we compare the period after formation of NPCI and before formation of NPCI. Various innovative products such as Immediate Payment Services (IMPS), National Automated Clearing House (NACH) and Payment Instruments (PPI), were launched after the formation of NPCI. There is enormous opportunity to increase the ratio of retail electronic clearing to systematically important payments such as Real Time Gross Settlement and CCIL grew from 1 percent in the year 2005-06 to 3 percent in the year 2013-14.

Introduction :-

Various developments have taken place in Indian Banking. Among the various developments, technology has influenced the way customer interacts with banks. Electronic channels and products such as ATMs, cards, internet banking and mobile banking are offered along with traditional cash channel. Differences in the usage of channels exist between developed countries and developing countries. Evidence suggests that there is a shift from traditional channel to electronic channels. For example, usage of digital banking in developed countries is more than 90 percent and diffusion of digital channels in developing countries range from 11 percent to 25 percent. The study by Capgemini in his report "World Payments Report 2014" indicate that non-cash transactions have reached 334 billion transactions. There is greater propensity of customers to move towards digital channels. Banks which possess digital capabilities are going to benefit. Customers recognize greater Convenience through digital channels. However, banks will need to cope up with issues of customer service and frauds which are associated with digital channels.

The paper offers important contributions to the existing literature on electronic banking. It is evident that significant developments are taking place on the front of electronic banking which we can term as revolution. India is no exception to the revolution in electronic banking. Regulators are forming a specialized organization with an objective to focus retail electronic payment products. In this regard, the major milestone has been the formation of National Payments Corporation of India. While the role of regulator in promoting retail electronic payments has been examined, the role of specialized organizations with an objective of oversight functions warrant investigation. NPCI has played a major role in the growth of electronic payments. We assess the development in India by tracking the progress by comparing the periods before and after the formation of NPCI in India.

### Objectives of The Study :-

1. To understand the emerging technological trends in banking sector of india
2. To trace the utility of banking technology across different strata of customers.

### Research Methodology :-

Data are collected through various banking related books, journals, newspapers and websites

### E- Banking And Its Evolution :-

It is method of banking in which the customer conducts transactions electronically via the internet. Customer can access his account, make payments, transfer funds, check balance, download bank statements from anywhere in world where internet is available. Online banking was first started in 80's. The term online became famous in the late '80s. Online banking during the formative years included usage at terminal, keyboard and TV (or monitor) with an intention to approach the banking system using a





phone line. Online services started in New York in 1981 when four of the city's major banks (Chase Manhattan, Chemical and Manufacturers Hanover) offered home banking services videotext system. Later on, the concept of videotext became popular in France. In UK, first home banking services were set up by the Nottingham Building Society (NBS) in the year 1983. It was the UK's Prestel system and used a computer, such as the BBC Micro, or keyboard (Tandata) to the telephone system and television set. It provided customer an option to make bill payments electricity and telephone companies and accounts with other banks. It was Stanford Federal Credit Union which offered online internet banking services to all of its customers.

**Progress Of Electronic Banking In India** In India, Reserve Bank of India outlined the vision to ensure that payment and settlement systems are safe, efficient, interoperable, authorized, inclusive and compliant with international standards. The Vision is to proactively encourage payment system for ushering in a less cash society in India. Regulation is keen to promote innovation and competition with an intention to help payment system achieve international standards. Various initiatives by Reserve Bank of India, in mid-eighties and early-nineties, resulted in offering technological solutions. The need evolved to provide cost effective alternative payment system.

**Electronic Clearing Service (ECS)** was launched in 1990s to cater to bulk and repetitive payments. By September 2008, a new avatar in the form of National Electronic Clearing Service (NEFT) was launched to handle multiple credits to beneficiary accounts. National Electronic Clearing Service (NEFT) rides on core banking solution of member banks. The retail funds transfer system was introduced to allow electronic transfer of fund for people to people payment. In November 2005, a robust system was launched to allow one to one funds transfer requirement of individuals and corporations. Smart cards allow transaction for goods and services against the value stored on payment instrument. It may be in the form of smart cards, magnetic stripe cards, internet wallets, mobile accounts, mobile phone and paper vouchers. Consequent to the guidelines in mobile banking, selected banks were allowed to offer the service after receipt of necessary permission from Reserve Bank of India.

Indian Retail payments pose significant challenges and based on Payment system vision document released by Reserve Bank of India, the number of transactions, at 6 per person, is low in India. It is estimated that Government subsidies for more than Rs.2.93 trillion and electronification has a potential to translate 4.13 billion transactions in a year. Based on the report of Internet and Mobile Association of India (IAMAI) commerce is expected to reach Rs.465 billion by the year 2012.

To facilitate electronification, Reserve Bank of India established the umbrella National Payment Corporation of India (NPCI). Many researches in the past have laid importance on significant developments that are taking place in the banking industry due to the surge in technology. Sahai and Machiraju discussed how new technologies addressed different requirements and how these technologies fit together to provide a ubiquitous e-market place and e-services. Many new products are offered in the area of electronic payment products, banks need to take care of these products. Concerns have been raised over the great 'digital divide' between the rich and the poor on the demand side and different operational environments in the private and public sectors on the supply side. The Reserve Bank is monitoring and reviewing the legal and other requirements on a continuous basis to ensure that e-banking would develop on sound lines and e-banking challenges would not pose a threat to financial stability. According to report of RBI in January 2009, there are 196079 ATM and 1337310 point of sale devices in India.

To cope with the pressure of growing competition, Indian commercial banks have initiated various initiatives and e-banking is one of them. The competition has been especially tough for traditional banks, as the newly established private sector and foreign banks are leaders in the adoption of e-banking. Indian banks offer to their customers following e-banking products and services:

1. Automated Teller Machines (ATMs)→
2. Internet Banking→
3. Mobile Banking→
4. Phone Banking→
5. Tele banking→
6. Electronic Clearing Services→



7. Electronic Clearing Cards→
8. Smart Cards→
9. Door Step Banking→
10. Electronic Fund Transfer→

**Conclusion :-**

With the time, the concept of internet banking has got attention in the Indian context. Most of the banks have already implemented the e-banking facilities, as these facilities are beneficial to both i.e. banks as well as consumers. The banks are facing many challenges and many opportunities are available with the banks. Many financial innovations like ATMs, creditcards, RTGS, debit cards, mobile banking etc. have completely changed the face of Indian banking. Thus, there is a paradigm shift from the seller's market to buyer's market in the industry and finally it affected at the bankers level to change their approach from "conventional banking to convenience banking" and "mass banking to class banking". This shift has also increased the degree of accessibility of a common man to bank for his variety of needs and requirements. In years to come, e-banking will not only be acceptable mode of banking but will be preferred mode of banking.

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