

Dynamics of Online Banking: Prospects and Problems

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Abstract- *Banking plays an important role in countries economic development. The role of commercial banks has been drastically changed after Liberalization, Privatization and globalization. Public sector banks have to compete with private corporate banks. Advanced Technology is one of the major contributing factors for the rapid advancement of banking sector (ATMs, online banking debt and credit cards etc). Online banking is a new phase in retail banking services. With the help of online banking several types of services through which customers can request information and carry out their banking transaction such as balance inquiry, inter account transfers, utility bills payment, request check book etc., via a telecommunication network or internet without physically visit the branches. Customers are being facilitated by reducing their visits in banks and they can carry out their transactions via internet or ATM Machines instead of personally visiting the branches. The Promotion of online banking technology enabled the banks to enhance its operations with cost cutting effectively and efficiently in order to handle daily banking affairs via online banking channel. This Paper examines trends and dynamics of online banking.*

I. INTRODUCTION

Banking is now no longer confined to the branches where one has to approach the branch in person, to withdraw cash or deposit a cheque or request a statement of accounts. In the developing countries, consumers' are now focusing into other substitute channel like electronic commerce for shopping which are offering them more and more choices of products and services in order to help cost savings and its ease. Policy matters regarding availing all types of loans are made ease and quick. Still all these facilities are within the reach of literate people

only. Even out of literate some of them not having facilities to avail the advanced services offered by the banks. Banking is now no longer confined to the branches where one has to approach the branch in person, to withdraw cash or deposit a cheque or request a statement of accounts. In the developing countries, consumers' are now focusing into other substitute channel like electronic commerce for shopping which are offering them more and more choices of products and services in order to help cost savings and its ease. Thus the e-banking has now become more essential in many countries due to the fact that it is the cheapest way of providing banking services (Arunachalam L and Siva Subramanian. M, 2007).

Online banking or Internet banking can be defined as performing financial transactions over the Internet through a bank's website. Customers are not the only beneficiary of this new service. Making use of online banking, commercial banks may greatly increase the market coverage and better track customers as well. The first online banking services based on the Internet were provided by Stanford Federal Credit Union (SFCU) in October 1994 (Business Wire, 1995). Online banking helps banks to retain and enhance the loyalty of their existing customers, increase customer satisfaction, provide opportunity to the banks to increase market share, reduce administrative and operational cost and to improve banks' competitive positions against their rivals (Khalfan et al., 2006).

II. HISTORY OF ONLINE BANKING

Indian Banking is the lifeline of the nation and its people. Banking has helped developed vital sectors of the economy and user in a new dawn of its progress on the Indian Horizon. The sector has translated the hopes and aspirations of millions of people into reality. However, to do so, it has had to

cover miles and miles of difficult terrain, suffer the indignities of foreign rule and pangs of partition. Today, Indian Banks can confidently compete with modern banks of the world.

The concept of online banking had evolved way back in the early 1980s when it was first envisioned and experimented. However, Presidential Savings Bank first announced it in the year 1995 on 6th October. The idea was quickly spread to the other banks like Wells Fargo, Chase Manhattan and Security First Network Bank. ICICI was the first bank in India to initiate the Internet banking in 1997. But usage increased only in 1999 due to lower ISP online charges, increased penetration of PC and Tech friendly atmosphere. In initial stages of online banking, most banks used a very simple layout, which allowed users to sign in, see their accounts and statements and make transfers from one account to the other. In modern day through online banking one can also arrange for a loan, set up direct debits and pay bills online-all with just a few clicks of the mouse.

Initially lots of consumers did not trust the idea of online banking. For examples, fear with hackers, who can commit theft, the account information. However, with the standardization of security system and payment process online banking grew in popularity.

III. DYNAMICS OF ONLINE BANKING

Johnston (1997) illustrates that certain actions, such as increasing the speed of processing information and customers, are likely to have an important effect in terms of pleasing customers; however other activities, such as improving the reliability of equipment, will lessen dissatisfaction rather than delight customers and suggests that it is more important to ensure that the dissatisfiers are dealt with before the satisfiers. Barczak et al. (1997) underlined the consumer motives for use of technologically based banking services and distribution channels and found that customers could be clustered on their money management philosophies. Eriksson, et al. (2004) concluded in their research that the perceived usefulness of internet banking is, for banks, a key construct for promoting customer use. They also suggest that

models of technology acceptance should be re-formulated to focus more on the key role of the perceived usefulness of the service embedded in the technology. Trust as another belief that has an impact on the acceptance of Internet banking. Akinci et al. (2004) conducted the study to develop an understanding of consumers' attitudes and adoption of Internet banking among sophisticated consumers. Users and non-users of Internet Banking (IB) were examined based on a random sample differ with respect to academicians, demographic, attitudinal, and behavioral characteristics. The analyses revealed significant differences between the demographic profiles and attitudes of users and non-users.

Guriting (2006) examines the factors that determine intention to use online banking in Malaysia Borneo. In his study, the perceived ease of use and perceived usefulness factors are considered to be fundamental in determining the acceptance and use of various information technologies. Singhal Divya and Padhmanabhan (2008) found that Major factors responsible for internet banking were 'utility request', 'security', 'utility transaction', 'ticket booking' and 'fund transfer'. More than 50 per cent of total respondents agreed that internet banking is convenient and flexible ways of banking and it also have various transaction related benefits. Hossain and Shirley Leo (2008) stated that Customers' perception was highest in the tangibles area and lowest in the competence area. Maenpaa Katariina et.al (2008) identified that Consumers' perceptions differed in four of seven dimensions of internet bank services when examined along the criterion of expertise. Results revealed that security was not a concern for any of the user groups. Gikandi and Bloor, (2009) investigate the factors that influence the adoption and effectiveness of e-commerce in retail businesses in Kenya. Two surveys were carried out (Initial and follow-up) in the years 2005 and 2009, respectively, which involved banks controlling approximately 90% of formal retail banking in Kenya.

Malhotra and Singh (2010) conduct an exploratory study and make effort to present the current status of Internet banking in India and the extent of Internet banking services offered by Internet banks. In addition, it seeks to examine the factors affecting

the extent of Internet banking services. Rod. et al. (2009) examine the relationships among three dimensions of service quality that influence overall internet banking service quality and its subsequent effect on customer satisfaction in a New Zealand banking context. The results show significant relationships among online customer service quality, online information system quality, banking service product quality, overall internet banking service quality and customer satisfaction. Hasim & Salman (2009) conducted a study to determine the factors that affect sustainability of internet usage by Malay youth in Kota Bharu, a rural town in the north east of peninsular Malaysia. The researchers study and concluded that there is sustainability of internet usage among Malay youth. Chong, et al. (2010) empirically examines the factors that affect the adoption decision of online banking in Vietnam. Perceived usefulness, perceived ease of use, trust and government support was examined to determine if these factors are affecting online banking adoption. The results showed that perceived usefulness, trust and government support all positively associated with the intention to use online banking in Vietnam. Contrary to the technology acceptance model, perceived ease of use was found to be not significant in this study.

IV. PROBLEMS OF ONLINE BANKING

Hood (1979) concluded that the evidences of various researches show that there is a high association between consumers' usage patterns of ATMs and their demographic profiles. Ram and Sheth (1989) examined that the customer dissatisfaction and resistance is one of the major causes of market failure of innovation. Lee and Turban (2001) found out that Majority of the customers hesitate to use internet banking services because of security and privacy issues. Aladwani (2001) examined that security and safety are the most challenging issues for the banks. Beside them, to build and retain the customers' trust will also become a future challenge for banks especially in internet banking. Huang et al. (2004) analysed that the security problems have a large contribution to reduce customer satisfaction. The success of any

new product and service is highly depending on customer acceptance and customer satisfaction.

V. PROSPECTS OF ONLINE BANKING

Nowadays, people are so busy in their work lives, that they don't even have time to go to the bank for conducting their banking transactions. Internet banking enables people to carry out most of their banking transactions using a safe website, which is operated by their respective banks.

Internet banking allows banking from anywhere, anytime and is used for transactions, payments etc. It provides enormous benefits in terms of ease and cost of transactions, either through internet telephone or other electronic delivery channels. 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. Zigi and Micheal (2003) found out that E-banking has enabled banks to increase their data collection, and management, efficient financial engineering that have improved the ability of assessing potential creditors, measuring the creditworthiness of potential borrowers and to price the risk associated with those borrowers through standardized mechanisms such as credit scoring.

In order to survive in the competitive field of the banking sector, commercial banks are looking for better service opportunities to provide their customers. All banks provide online banking facility to their customers as an added advantage. Carlson (2000) examined that Technological developments in banking make it much easier and cheaper for customers to compare and contrast products and to establish multiple banking connections and enable consumers to alter the purchasing, decision making process of the customer.

Online banking has opened the doors for all customers to operate beyond boundaries. Electronic distribution channels provide alternatives for faster delivery of banking services to a wider range of customers. Kannan (2004) stated that Besides its benefits, electronic banking has its own draw backs as well. One of the main important disadvantages of electronic banking applications internationally is the

lack of governmental policies that guides Internet banking operations across international borders.

Online banking provides many features and functions to their customers and enables them to view their account balance, transfer money from their account to another account in the same bank or any other bank, view their accounts summary etc. SAS Institute AB (2000) concluded that Customers need access to a computer with internet which signifies that the access to a customer's account is solely dependent in technology in the case of online banking. A third party services is required by the bank to run the online banking services to their clients.

VI. CONCLUSION

The service quality in internet banking from customer needs thorough analysis to find out the determinants for success and growth of new channel of delivery in India so that useful guidelines for bankers can be extracted. Bankers in India are continuously looking for the newer know-how's to improve service quality of their banks to gain competitive edge. Therefore, service quality in Internet banking plays a vital role for retaining customers and meeting the customer's satisfaction level. In Indian context, quality of service in Internet banking has not been adequately emphasized. Therefore, it is essential to focus on quality of service in Internet banking. In doing so, it can provide guidelines for the bankers to implement the quality programme in Internet banking. The major challenges that Electronic banking is facing is the security variability, lack of knowledge of end users, failure of bank transitions, user interface etc. The major challenges that Electronic banking is facing is the security variability, lack of knowledge of end users, failure of bank transitions, user interface etc. Studies relating to online banking from customer point of view are very limited so that to fill this gap more studies should be conducted.

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