

Role of Online Banking in Economy

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Abstract

The new economy, also called e-economy, is the most frequently used term in economic and technical literature, discussions of scientists, businessmen and politicians beside globalization and information technology society. Three planes of understanding of the new economy can be distinguished: as a system of new principles explaining how economic subjects function on the market; as activities of economic subjects in the strongly changed conditions. Owing to the dynamic development of technical progress, especially in information technology economic subjects change completely strategy of their activities many times. Information and knowledge as main economic categories, which are the basis of the contemporary business, are the foundation of activity another term is assigned to this understanding, namely knowledge-based-economy. The third plane, new economy treated as a subject, namely determining activities of an enterprise in the IT sector. Therefore, the new economy, also called cyber-economy, constitutes a new paradigm of business. On this virtual market E-business is a new form of an exchange of resources by means of information technology systems and internet technologies, conducted on-line through electronic connections and an information exchange by use of electronic multimedia such as Internet, cable and satellite television, telephony, electronic cards, Intra and Extranet at the national and international level.

Introduction

Online banking is an electronic payment system that enables customers of a financial institution to conduct financial transactions on a website operated by the institution, such as a retail bank, virtual bank, credit union or building society. Online banking is also referred as Internet banking, e-banking, virtual banking and by other terms.

To access a financial institution's online banking facility, a customer with Internet access would need to register with the institution for the service, and set up some password (under various names) for customer verification. The password for online banking is normally not the same as for telephone banking. Financial institutions now routinely allocate customers numbers (also under various names), whether or not customers have indicated an intention to access their online banking facility. Customers' numbers are normally not the same as account because a number of customer accounts can be linked to the one customer number. The customer can link to the customer number any account which the customer controls, which may be cheque, savings, loan, credit card and other accounts. Customer numbers will also not be the same as any debit or credit card issued by the financial institution to the customer.

Role of Online Banking in Day to Day Life

Online Banking is now offered by almost every bank. It is now becoming common in the banking world. Online banking has benefits for both the parties forming

contract. Through online banking people can access to their account and perform online transactions without visiting the bank. Internet has now made it very easy for customers to manage their bank accounts.

Online banking can be helpful to customers, in order to partner up their financial needs with banks. This innovative feature, when Online Banking introduced in banks was not considered but when few people started online banking, others also came towards this feature and these days banking is mostly done online. There are a number of benefits to banks through online banking. More customers are now making bank accounts online by taking information from the websites. Online banking has both, advantages and disadvantages. For most of the people online banking is a great benefit and some feel that it has made life a bit complex. Here are some advantages that overrule the disadvantages of online banking.

Advantage of Online Banking

- This feature has offered customers user friendly websites, robust security and measures to protect their privacy.
- It has made easier for customers to keep track of their daily transactions by just logging into their online bank account.
- The biggest advantage of online banking is, it is fast immediate and effective and it can be helpful for urgent payments as well. This saves customer's time, which is very essential these days.
- Through online banking people can plan and perform actions for the transactions to be made in future on a particular date, in this way payments will not be delayed.
- As banking is a vast feature and when it is done by means of internet, online

banking, it broadens more and may have more advantages as well.

Importance of Online Banking

- Activity Review

Business owners, accounting staff and other approved employees can access routine banking activity such as deposits, cleared checks and wired funds quickly through an online banking interface. This ease of review helps ensure the smooth processing of all banking transactions on a daily basis, rather than waiting for monthly statements. Errors or delays can be noted and resolved quicker, potentially before any business impact is felt.

- Productivity

E-banking leads to productivity gains. Automating routine bill payments, minimizing the need to physically visit the bank and the ability to work as needed rather than on banking hours may decrease the time involved in performing routine banking activities. Additionally, online search tools, banking actions and other programs can allow staff members to research transactions and resolve banking problems on their own, without interacting with bank employees. In some cases, month-end reconciliations for credit card transactions and bank accounts can be automated by using e-banking files.

- Lower Banking Costs

Banking relationships and costs are often based on resource requirements. Businesses that place more demands on banking employees and need more physical assistance with wire transfers, deposits, research requests and other banking activities often incur higher banking fees. Opting for e-banking minimizes business overhead and banking expenses.

- Reduced Errors

Utilizing e-banking reduces banking errors. Automation of payments, wires or other consistent financial activities ensures payments are made on time and may prevent errors caused by keyboard slips or user error. Additionally, opting for electronic banking eliminates errors due to poor handwriting or mistaken information. In many cases, electronic files and daily reviews of banking data can be used to double or triple check vital accounting data, which increases the accuracy of financial statements.

- Reduced Fraud

Increased scrutiny of corporate finances through audits and anti-fraud measures requires a high level of visibility for all financial transactions. Relying on e-banking provides an electronic footprint for all accounting personnel, managers and business owners who modify banking activities. E-banking offers visibility into banking activities, which makes it harder for under-the-table or fraudulent activities to occur.

Functions of Online Banking

Declare cash payment, convert currency, to deposit payments, to view list of the Bank's operations and use samples of the documents to form the new document. You can also make a template for the Telephone Banking as well as archive documents.

Trast.Net regime Transfers offers possibility to form, send to the bank or save in the system following documents:

- Book transfer;
- international transfer;
- transfer in LVL;
- budget transfer;
- transfer within one customer;

Trast.Net regime Cash withdrawal offers possibility to send to the bank or save in the system cash costs requirements.

Trast.Net regime Foreign Exchange offers possibility to send to the bank or save exchange orders.

Trast.Net regime Term Deposit offers possibility to send to the bank or save deposit payments.

Trast.Net regime List of Bank operations offer a possibility to view and edit documents formed by you and its state. It is possible to overview all saved documents – new formed, those which has been sent to the bank, accomplished and cancelled documents by bank, list them in decrescent or crescent order by state, formatting date, number of document, account number, type of transaction, amount, currency, recipient. You can also separately view whether the new ones or to the bank sent documents only.

All above mentioned documents you can also view, delete, make corrections into new formed documents, cancel implementation of the documents which you have sent to the bank already, print, copy and send to the archive the documents that are accomplished or canceled documents by the bank, using the Banks operation list.

Trast.Net regime my templates, gives possibility to form new documents, using already saved samples of documents. For more handy work you can list them in decrescent or crescent order by the type of transaction, currency, information of recipient or added notes. The templates of the document is possible to use for the creating of the new document, correct and delete as well as to find quickly the document's templates that you are interested in. It is possible to use a browser tool.

Regime Telephone banking templates aloud you to add, view and delete samples of the document, which are saved specially for the work with Telephone banking system. Here it is also possible to list the templates in order that you with them to be (by type of the transaction, currency, recipient, added notes).

Trast.Net regime Archive is possibility to view and edit accomplished or canceled by the bank documents, which you have saved

in the archive. You can create and send message to the bank, check from the bank received messages about completed transactions and changes, archive and edit messages as well as use messages templates. You can check the account balance on the current moment, which in the case of necessity is possible to print out. You can also forward your bank statements, indicating the time period what you are interested in. Here you can have information about exchange rate and deposit rate indicating the data of the day you want receive this information. You can change the password, personalize system setups, update description of account, save and delete notes that you have made. The client has possibility to view system User's list.

In regime Change the password you can replace old password with the new.

If it is necessary, you can set up the bookmarks for more comfortable work in the system of Trast.Net.

Internet bank.

To ensure more security you may specify in the mode „IP addresses” that computers from which you allow access to your Trast.Net system.

By using regime Personalize system setups indicate the main page, language of interface and the setups in the archive saved documents in order to make it operate by your conditions on the moment of registration.

If you want to create or delete notes, which is possible to choose by making new or correcting already existing document use the regime Edit Notes.

Register is regime where you can view all history of the User in the operation system. Here you can see how often the concrete user has registered and what kind of operations has been accomplished in the time period that you are interested in. If you want to have extra information about the operating in the system, fulfilling the forms and explanation of informative fields you can use this chapters where you can quickly

find any information of the question that you are interested in, also by using browsing tool.

Types of Online Banking

Currently, there are three basic kinds of Internet banking that are being employed in the marketplace:

1. Information

This is the most basic level of Internet banking. The bank has marketing information about its products and services on a stand-alone server. This level of Internet banking service can be provided by the bank itself or by sourcing it out. Since the server or Web site may be vulnerable to alteration, appropriate controls must therefore be in place to prevent unauthorized alterations to data in the server or web site.

2. Communication

This type of Internet banking allows interaction between the bank's systems and the customer. It may be limited to electronic mail, account inquiry, loan applications, or static file updates. The risk is higher with this configuration than with the earlier system and therefore appropriate controls need to be in place to prevent, monitor, and alert management of any unauthorized attempt to access bank's internal network and computer systems. Under this system the client makes a request to which the bank subsequently responds. Works on the same principle as the e-mail.

3. Transaction

Under this system of Internet banking customers are allowed to execute transactions. Relative to the information and communication types of Internet banking, this system possesses the highest level of risk architecture and must have the strongest controls. Customer transactions can include accessing accounts, paying bills, transferring funds, etc. These possibilities demand very stringent security

Opportunities for Internet Banking

Internet banking as an alternative delivery channel offers many opportunities for growth and development of the financial institutions. Financial institutions have begun to realize that although the Internet is simply a delivery channel it is nevertheless an extremely powerful one. Therefore, financial institutions are investing in electronic Customer Relationship Management (eCRM) solutions that span across all channels, with the goal of strengthening customer loyalty and increasing fee-based transactions. In order to achieve this, eCRM solutions track customer interactions across channels, analyzing the aggregate data that will reveal patterns about customer usage of financial products. Consequently, by using this information, financial institutions can generate business rules that define as to which type of offers need to be made to customers at various times of their lives. Increasingly, financial institutions make offers through all channels, tracking the results to make business strategies even more effective.

Opportunities for Internet – Only (virtual) Banks

Internet-only banks often have less money to spend on items such as marketing or CRM solutions relative to their brick-and-mortar counterparts. Therefore in order to compete they must find niches in areas where they can outlast their competitors. When they do identify niches, they can compete effectively because they do not have the additional burden of integrating legacy systems. Some areas where virtual banks may carve a niche are discussed below.

- Invoice Payment Management

Though financial institutions have not become the dominant Electronic Bill Presentment and Payment (EBPP) consolidators for consumers, they are

creating a new role in Electronic Invoice Presentment and Payment (EIPP) for small business and corporate customers. In this role, financial institutions will be the receipt point for company bills, extending their more traditional lockbox processing into the e-payment age (Internet Banking Solutions, 2001).

- Online Credit Card Payments

Credit cards will remain the dominant consumer Internet payment for the future. While online debit and electronic cheques using Automated Clearinghouse (ACH) will make marginal headway there would be little chance of overtaking online credit cards. As this is an area with relatively low need for contact between banker and customer, virtual banks may be tempted to capitalize on credit card business (Shanmugam and Guru, 2003).

- Electronic Cheques for B2B Payments

Electronic cheques have become more popular for retail purchases but until now have had little impact on business payments. It is expected that businesses such as retailers would turn cheques into ACH transactions to retain compatibility with their accounts payable systems (Internet Banking Solutions, 2001).

- Online Mortgage Applications

Until recently, online applications were restricted to credit cards and small loans. Now more people are beginning to apply for mortgages online. However, the volume is growing slowly due to inadequate online customer support. Experts forecast the number of home purchasers researching mortgages online to reach 25 to 30 percent. While many may review this availability the actual closing of deals may only reach 6 percent per annum (Internet Banking Solutions, 2001).

Conclusion

Internet banking is on the rise. When viewed as another channel, its benefits are

modest. However, when integrated with other channels, Internet banking becomes a powerful tool for improving customer satisfaction and increasing cross-selling opportunities. But at the same time banks must keep in mind that, every electronic channel including the Internet has its short falls which can have major consequences. Keeping track of the ever changing banking industry and the latest update in Internet technology, banks need to equip themselves for the competition. Even though there are enormous opportunities and virtual banks are on the rise 'brick and mortar' banks and transactions should not be neglected or relegated to the sidelines. This is because there are numerous aspects of banking which cannot be currently accomplished by electronic impulses.

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