CHAPTER-1

OVERVIEW OF INDIAN BANKING SECTOR

BANKING in India is as old as the hills. It flourished even in ancient Vedic times. Money was accepted on deposit and given in the firm of advances. As far back as the second or third century A.D., Manu, the great Hindu jurist, devoted a section of his work to deposits and advances and laid down rules relating to rates of interest to be paid or charged. During the Mogul Period, the indigenous bakers played a very important role in lending money and financing of foreign trade and commerce. They were also engaged in the profitable business of money changing. Every town, big or small, had a ‘sheth’, also known as ‘shah’, ’shroff’ or ‘chettiar’ who performed a number of banking functions. He was respected by all sections of people as an important citizen. In principal towns, besides shroffs, there was a ‘Nagar – Sheth’ or ‘Town Banker’. These sheths or shroffs, besides money-lending business, were instrumental in transferring finds from place to place and doing collection business mainly through hundies. The hundies were an accepted mode of transfer of monies for commercial transactions.

Even today there is a sheth or shroff in almost every town or village. He is operating even in the remotest corners of the country. He calls himself a banker but is essentially a moneylender. He hardly accepts deposits. Most of the money he employs in his trade is his own. The rate of interest charged by him is very high as the advances are unsecured and risky, and are repaid over a long period of time. The future of these money-lenders is, however, bleak. There have been changes in the standard of public morality. The “Money Lenders Acts” passed by different States have imposed a large number of restrictions on their business. Litigation for recovery of outstanding is a protected, expensive and uncertain process. With the growth of banking habit, the change in the public opinion and the fast expansion of banking in rural and semi-urban areas, especially after nationalization of major Indian commercial banks, the moneylenders as a class are bound to lose their importance.
Indian Banking is the lifeline of nation and its people. Banking has developed vital sectors of the economy and usher in a new dawn of progress on the Indian horizon. The sector has translated the hopes and aspirations of millions of people into reality. But to do so, it had covered miles and miles of difficult terrain, suffer the indignities of foreign rule and the pangs of partition. Today Indian Banks can confidently compete with modern banks of the world. The first modern bank was founded in Italy in Genoa in 1406; its name was ‘Banco di San Giorgio’ (Bank of St. George).

Bank’s in its crude form is an old age phenomenon. It was in existence even in ancient times Ravilpout, a French writer, for instance, mentions about bank and bank notes in Babylon in 600 B.C. In India, references to money-lending business are found in the manu smriti also. Manu, the second century rishi and scholar has said in his works that a sensible man should deposit his money with a person of good family, of good conduct and one who is well acquainted with the law.

Prof. Marshal in his book, ‘Money, Credit and Commerce’ (1923) writes about the activities of money changers in the temples of Olympia and other sacred places in Greece, around 2000 B.C. To quote him, “Private money changers began with the task of reducing many metallic currencies, more or less exactly to a common unit of value, and even to accept money on deposit at interest, and to lend it out at higher interest permitting mean while drafts to be drawn on them”.

1.1 Meaning of bank:

The name bank derives from the Italian word banco “desk/bench”, used during Renaissance by Florentines bankers, who used to make their transactions above a desk covered by a green tablecloth. However, there are traces of banking activity even in ancient times.

In fact, the word traces its origin back to the Ancient Roman Empire, where moneylenders would set up their stalls in the middle of enclosed courtyards called macella on a long bench called a ‘bancu’, from which the words banco and bank are derived. As a moneychanger, the merchant at the bancu did not so much invest money
as merely convert the foreign currency into the only legal tender in Rome—that of the Imperial Mint.

A banker or bank is a financial institution whose primary activity is to act as a payment agent for customer and to borrow and lend money.

A bank is like a reservoir into which flow the savings, the idle surplus money of households and from which loans are given an interest to businessman and others who need them for investment or productive uses.

1.2 Definition of bank:

On account of the multifarious activities of a modern bank, it becomes very difficult to give a precise definition of the word ‘Bank’.

Following are the various different definitions of Bank.

- According to Indian Banking Regulation Act, 1949:
  1) “A Banking Company (or a bank) is defined as “any company which transacts the business of banking in India.” [Section 5(1)]
  2) “Banking” is defined as accepting, for the purpose of lending or investment, deposits of money from the public, repayable on demand or otherwise and withdraw able by cheque, draft, order or otherwise. [Section 5(2)]

- According to Japanese Banking Act, 1927:
  “Bank means an institution which can perform an activity to give and receive the credits.”

- According to Prof. Coucher:
  “A bank is a financial institution which can accept the surplus savings from the individuals in the form of deposits and when the depositor demands the money, the institution can immediately pay the amount invested.”
Most of the activities a bank performs are derived from the above definitions. In addition, Banks are allowed to perform certain activities, which are ancillary to this business of Accepting Deposits, Remittance and Lending Activities. Another activity, which is assuming increasing importance, is transfer of money – both domestic and foreign – from one place to another. This activity is generally known as “remittance business” in banking parlance. The so-called forex (foreign exchange) business is largely a part of remittance albeit it involves buying and selling of foreign currencies. A bank’s relationship with the public, therefore, revolves around accepting deposits and lending money.

1.3 History of Bank:

The early banks were probably the religious temples of the ancient world, and were probably established sometime during the 3rd millennium B.C. Banks probably predicted the invention of money. Deposits initially consisted of grain and latter, other goods including agricultural implements, cattle and eventually precious metals such as gold, in the form of easy-to-carry compressed plates. Temples and Palaces were the safest places to store gold as they were constantly attended and well built. As sacred places, temples, presented an extra deterrent to would be thieves.

There are records of loans from the 18th century B.C. in Babylon that were made by temple priests/monks to merchants. By the time of Hammurabi’s code banking was well enough developed to justify the promulgation of laws governing banking operations.

Ancient Greece holds further evidence of banking. Greek temples, as well as private and civic entities, conducted financial transaction such as loans, deposits, currency exchange and validation of coinage. Around 371 B.C, passion, a slave became the wealthiest and most famous Greek banker, gaining his freedom and Athenian citizenship in the process. In the late third century B.C., the barren Aegean island of Delos, known for its magnificent harbor and famous temple of Apollo, became a prominent banking center.

In Egypt, from early times, grain had been used as a form of money in addition to precious metals, and state granaries functioned as banks. The numerous scattered
government granaries were transformed into a network of grain banks centralized in Alexandria where the main accounts from all the State granary banks were recorded. This banking network functioned as a trade credit system in which payments were affected by transfer from one account to another without exchange of money.

1.3.1 Background of Indian banking system:

In India, there prevailed a system of indigenous banking from very early times, though it was not similar to banking of modern times. There is evidence to show that money lending existed even during the Vedic period. With the advent of the English traders in the Seventeenth century and the establishment of trading centers by the East India Company, the position of indigenous bankers became precarious. Unable to use indigenous bankers for their trading and banking purposes, the East India Company, encouraged the establishment of agency houses-trading firms which undertook banking operations for the benefit of their constituents. Some of the important agency houses established during the period was Alexander & Co. & Fergusson & Co. These firms combined banking with other kinds of business and both were the predecessors of the early Joint Stock Banks in India. ‘The Bank of Hindustan’, a mere appendage of the former, was the earliest bank under European direction in India.

‘The Bank of Hindustan’ was the first bank in India, established in 1770. Since, 1770, the journey of Indian Banking System can be bifurcated into three distinct Phase.

Three distinct phases can be identified in the history of Indian banking. They are:

1. Pre-Nationalization period prior to 1969
2. Nationalization of banks and the period prior to banking sector reforms up to 1991
1.3.1.1 Pre-Nationalization period prior to 1969:

The banking system of India was started with the establishment of the first joint stock bank, The General Bank of India, in the year 1786. After this, banks such as Hindustan Bank and Bengal Bank came into existence. East India Company established three banks: (1) The Bank of Bengal in 1809, (2) The Bank of Bombay in 1840, and (3) The Bank of Madras in 1843. These three Presidency Banks were reconstituted under Presidency Banks Act, 1876. After the First World War the Presidency Banks were amalgamated as ‘The Imperial Bank of India’ in 1921. In 1935, the Reserve bank of India was constituted as the country’s central bank under the RBI Act of 1934.

When the country attained independence in 1947 Indian Banking was exclusively in the private sector, relatively small and extremely weak. It was mainly characterized by the following:

- The banks were largely confined to urban areas, extending loans mainly to trading sector dealing with agricultural produce. Virtually no banking services were available at rural and semi urban areas.
- These institutions did not play their due role in the planned development of the country.
- Deposit mobilization was slow as public lacked confidence in banks on account of frequent bank failures.

The Government of India, concerned by frequent failures and the resultant miseries faced by small depositors and others enacted the Banking Companies Act 1949 and the title was changed as ‘Banking Regulation Act, 1949’ as per amendment in 1965.

1.3.1.2 Nationalization of Banks:

In the year 1955 Imperial Bank of India was nationalized to form State bank of India with the stated objective of ‘extension of banking facilities on a large scale, more particularly in the rural and semi urban areas and for diverse other public purposes’.
The seven banks now forming subsidiaries of SBI were nationalised in the year 1960. This brought one-third of the banking segment under the direct control of the Government of India.

The first phase of financial reforms resulted in the nationalization of 14 major banks in 1969 and resulted in a shift from class banking to mass banking. This, in turn, resulted in a significant growth in the geographical coverage of banks. Every bank had to earmark a minimum percentage of its loan portfolio to sectors identified as ‘priority sectors’. The manufacturing sector also grew during the 1970s in protected environs and the banking sector was a critical source. The next wave of reforms saw the nationalization of 6 more commercial banks in 1980 taking the number of nationalized banks to 27. Since then the number of scheduled commercial banks increased four-fold and the number of bank branches increased eight-fold.

1.3.1.3 Problems faced by the banks prior to 1991-92:

Before 1991-92, the financial sector was characterised by segmented and under-developed financial markets as well as by the paucity of instruments. The structure of interest rates was complex and their levels were regulated by the administration. The sector lacked transparency, accountability and prudential norms, while information on debtors and the ability to recover doubtful assets was very weak, leading to an increasing number of non-performing assets (www.delind.cec.eu.int, 2008).

Before 1991 banking sector in India was facing several problems such as:

i. Eroding productivity and efficiency of public sector banks which led to continuous losses,

ii. Increasing NPAs and deteriorated portfolio quality,

iii. Poor customer service and obsolete work technology,

iv. Inability to face competition effectively.

In order to remove the above-mentioned deficiencies, Narasimham committee was appointed in 1991 and it submitted its report within three months in November 1991 with measures to improve productivity and efficiency of the banking sector (Uppal and Kaur, 2007). The aim was to improve efficiency, productivity and profitability of
the Indian financial sector. The recommendations among other things laid emphasis on revitalizing overall monetary policy framework, strengthening financial institutions and integrating the financial system with the global economy to attract capital and modern technology (Rajneesh De and Padmanabhan, 2002).

1.3.1.4 Narasimham Committee Report and Banking Sector Reforms:

Several changes have taken place following the recommendations made by the Narasimham committee, some of which are as follows:

- Free entry of new private sector/foreign banks
- Introduction of prudential accounting norms
- Prescription of capital adequacy requirements
- Increasing trend towards deregulation of interest rates
- Diversification of activities
- Emphasis on fee-based services
- Increasing competition
- Increasing customer expectations

These rapid developments have become new challenges for the banks, and in the post liberalization era the banking sector has truly become one in which the survival of the fittest has become the norm (Ramakrishnan, 1999).

V. Leeladhar (2006), the Deputy Governor of Reserve Bank of India (RBI) had identified a few broad challenges faced by the Indian banks. They are enhancement of customer service; application of technology; implementation of Basel II; improvement of risk management systems; implementation of new accounting standards; enhancement of transparency and disclosures; and compliance with Know Your Customer (KYC) aspects.

The Narasimham Committee felt that computerization and mechanization is a means to improve customer service efficiency in a competitive environment of highly
computerized financial companies. Some of the major technology-based networks under government include NICNET, ERNET, SIRNET, INDONET and I NET. BANKNET, a telecommunication network of Indian banks went in for membership of the international network of SWIFT (Society for Worldwide Interbank Financial Telecommunication) a few years ago.

1.4 Types of banks:

Financial requirement in a modern economy are of a diverse nature. Hence, different types of banks have been instituted to cater to the varying needs of the community. Banks in the organized sector may, however, be classified into the following major forms:

1.4.1 Commercial banks:

Commercial Banks are very renowned almost in every country because of the services they provide to individuals, commerce and industry. Amongst the banking institution in the organized sector, the commercial banks are the oldest institutions having a wide network of branches commanding utmost public confidence and having the lion’s share in the total banking operations.

A Commercial Bank may be defined as a financial institution that accepts deposits of money from the public and utilizes those deposits for lending activities. In simple words, Commercial Banks are Joint Stock Companies dealing in money and credit. The most distinctive function of a commercial bank is that it accepts deposits called demand deposits from the public, which can be withdrawn. Only, acceptance of
deposits, however does not give it the status of a bank. Another crucial activity that Banks undertake is to make use of these deposits for proper lending.

Commercial Banks occupy a dominant place in the money market, as such banks usually provides short-term loans and advances. The Indian Banking Regulation Act, 1949, governs the Commercial Banks in India. As a matter of fact, they form the biggest component of the banking structure of any country.

In socialist countries like Russia, they are completely nationalized. While, in case of capitalist countries, like the UK and the USA, commercial banks are usually in private sector, owned by shareholders. In France, however, though it has a capitalist economy, all commercial Banks are State-Owned.

Some of the primary functions of commercial banks are raising the funds and lending the same to different segments, whereas secondary functions of commercial banks are to provide several financial services. A list of primary and secondary functions of commercial banks are presented in the chart below:

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<thead>
<tr>
<th>PRIMARY FUNCTIONS OF COMMERCIAL BANKS</th>
<th>SECONDARY FUNCTIONS OF COMMERCIAL BANKS</th>
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<tbody>
<tr>
<td><strong>A. Raising of Funds:</strong></td>
<td>• Discounting Of Bills</td>
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<tr>
<td>• Fixed Deposit Account</td>
<td>• Agency Services:</td>
</tr>
<tr>
<td>• Current Deposit Account</td>
<td>• Issuing Of Credit Instruments, Cheque and Circular Notes:</td>
</tr>
<tr>
<td>• Savings Deposit</td>
<td>• Execution Of Standing Orders:</td>
</tr>
<tr>
<td>• Recurring Deposit</td>
<td>• Purchase &amp; Sale Of Securities:</td>
</tr>
<tr>
<td>• Other Accounts</td>
<td>• Payment &amp; Collection Of Dividend &amp; Interest:</td>
</tr>
<tr>
<td><strong>B. Lending of Money:</strong></td>
<td>• Remittance Of Funds:</td>
</tr>
<tr>
<td>• Cash Credit</td>
<td>• Bank Drafts:</td>
</tr>
<tr>
<td>• Overdraft</td>
<td>• Mail Transfer:</td>
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<tr>
<td>• Loans</td>
<td>• Telegraphic Transfer:</td>
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<tr>
<td><strong>C. Money Transfer</strong></td>
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</table>
In India, however there is a mixed banking system. Prior to July 1969, all the Commercial Banks – 73 scheduled and 26 non-scheduled banks, except the SBI and its subsidiaries – were under the control of private sector. On July 19th, 1969, however, 14 major commercial banks with deposits of over 50 crores were nationalized. In April 1980, another six commercial banks were taken over by the Government.

At present, there are 20 Nationalized Banks plus the SBI and its 6 subsidiaries constituting Public Sector banking controls over 90 percent of the banking business in the country.

1.4.2 Co-Operative Banks:

Co-operative Banks are essentially Co-operative Credit Societies organized by members to meet their short term and medium term financial requirements. Co-operative Banks are a group of financial institutions organized under the provisions of the Co-operative Societies Act. The main object of Co-operative Banks is to provide cheap credit to its member. They are based on the principles of self-reliance and mutual co-operative.

The Co-operative Banking system in India is however, small-sized in comparison to the Commercial Banking system. Its credit outstanding is just less than one-fifth of the total credit outstanding of the commercial banks. Nonetheless, Co-operative Credit system is the main institutional source of rural, especially, agriculture finance in India.
Co-operative Banking system in India is a pyramid (three-tier) structure, constituted by:

Primary Credit Societies (PCSs) lie at the bottom or base level. In rural areas there are Primary Agriculture Credit Societies (PACS), which cater to the short and medium term credit needs of the farmers

In urban areas, to provide non-agriculture credit, Urban Co-operative Banks and Employees Credit Societies are formed. Urban Banks usually provide short-term loans to their members who are small borrowers. They also accept deposits from members and non-members too. Thus, their functions are more or less same to those of commercial banks.

The Central Co-operative Banks (CCBs) are federations of primary societies belonging to a specific district. By furnishing credit to the primary societies, CCBs serve as an important link between these societies and the money market of the country. No CCBs lends to individual. It lends to societies only.

The State Co-operative Banks (SCBs) lie at the apex of the entire Co-operative Credit structure. Every State Co-operative Banks Primary function is to provide loans to the Central Co-operative Banks in order to enable them to assist in promoting the lending activities of the primary credit societies. The SCBs, thus, serve as the final link between the money market and the co-operative sector of the country.

1.4.3 Specialized Banks:
There are Specialized Banks catering to some special or significant needs. For instances, Industrial banks, Foreign Exchange banks, Development banks, Land development banks, etc. Some of the Specialized Banks are explained as follows:
1.4.3.1 Industrial banks:

Industrial Banks are chiefly meant to furnish to the financial needs of industrial undertakings. They render long-term credit to industries for the purchase of plant & machinery, various tools & equipments, etc.

In India, there are some special financial institutions which are called “Development Banks”. Presently, at the All-India Level, there are five such Industrial Development Banks:

1. The Industrial Development Bank of India (IDBI)
2. The Industrial Finance Corporation of India (IFCI)
3. The Industrial Reconstruction Corporation of India (IRCI), for large Industries
4. The Industrial Credit & Investment Corporation of India (ICICI)
5. The National Small Industries Corporation (NSIC), catering to the needs of the small industries.

Except for ICICI, which is owned by the Private Sector, all these institutions have been formed by the Government.

Similarly, at the state level there are three such industrial development banks:

1. The State Finance Corporations (SFCs)
2. The State Industrial Corporations (SICs)
3. The State Industrial Investment Corporations (SIICs)

1.4.3.2 Foreign Exchange Banks:

Foreign Exchange Banks or simply exchange banks are meant mainly to finance the foreign trade of a country. They deal in foreign exchange business, buying and selling of foreign currencies, discounting, accepting and collecting foreign Bill of Exchange. They also perform ordinary banking business such as acceptance of deposits and
advancing of loans, but in a limited way. In India, there are 15 foreign commercial banks.

1.4.3.3 Land Development Banks (Ldbs):

Land Development Banks are meant to cater to the long and medium term credit needs such as loans for effecting permanent improvement in land, for purchasing tools and equipments such as pump sets, tractor, etc., of agriculture in our country. They are mainly district level banks. Since the LDBs give loans to their members on the mortgage of land, previously they were called Land Mortgage Banks. It is a two-tier structure. There are State LDBs at the top or apex level and Primary LDBs at the bottom or local level.

1.4.3.4 Agriculture Refinance & Development Corporation (Ardc):

It is a type of agriculture development bank which provides medium and long term finance to agriculture in our country. ARDC operates by making provisions of refinance to State LDBs, State Co-operative Banks and Scheduled Commercial Banks which are its shareholders.

1.4.3.5 The Export-Import Bank of India (Exim Bank):

The Export and Import Bank of India, was set up on January 1, 1982 to take over the operations of international finance wing of Industrial Development Bank of India (IDBI). EXIM Bank has been instituted for planning, promoting and developing exports and imports of the country. Besides, it provides refinance facilities to the commercial banks and financial institutions against their export-import financing activities.

In western countries, there are specialized banks such as discount houses, investment banks, labour banks, etc. catering to the specialized needs of the people.
1.4.4 Central Bank:

A Central Bank is the Apex financial institution in the banking and financial system of a country. It is regarded as the highest monetary authority in the country. It is a service-oriented financial institution primarily concerned with the supervising, regulating and development of the banking system in the country. It acts as the leader of the money market. It supervises controls and regulates the activities of the commercial banks. As the central bank it is able to influence monetary and credit condition and financial developments in a country. It is charged with the responsibility of carrying out the monetary and credit policies.

India’s central bank is the Reserve Bank of India, established in 1935.

1.5 Overview of E-Banking System:

The world is currently experiencing a foremost change i.e. “the Information Technology (IT) Revolution”. The foundation stone of this revolution is the innovations and developments in Computing and Telecommunication Technologies. What the steam engine did for our muscles, the modern computer is doing for our brain to manage information/data. The computer has been facilitating the Engineers, Doctors, Educationalists, Researchers, Statistical Analysts and Bankers etc. to manage their valuable data/information and do complex calculations in easy, fast and reliable manner. The effect of IT on service sector is large as compared to others. All over the world, the banking sector being a service provider has been observing a big change in its working environment, polices, organizational structure, service delivery channels and deployment of new products.

The E-Banking is not limited to the cash withdrawal or funds transfer from one account to another. It includes all electronic platforms ranging from self-service terminals to Internet and cell phones. This is a bouquet of all banking information or services that a customer desires from a financial organization (Singh, 2002). The E-Banking means different facilities to the various users. Here users may be classified as bank customers and employees. Further there is categorization of customers into
Individual Customers and Corporate Customers. Similarly the bank employees are divided into various categories of users as per their job nature and positions in all the three levels in the management such as Chairman, CEOs (Chief Executive Officers), Managing Directors, Regional/ Zonal/ Branch Managers, System Administrators, DBA (Database Administrator), Programmers and Data Entry Operators/Clerks etc.

Electronic Banking (E-Banking/e-Banking) is a modern banking system. It is the accessibility of banking services in electronic form, which were traditionally available only at bank-counters and dispersed by the humans. E-Banking is changing the ways of doing banking business with modern technologies and techniques. It is the replacement of traditional tools such as papers and pencils with the electronic systems. The introduction of Internet in the business has further enhanced the capacity and capability of overall banking system in terms of productivity, profitability, efficiency, quality of service and cost effective delivery of numerous products/services. Information regarding money, its storage in the computers in digital form and its movement anywhere in the world without considering physical boundaries is described as digital money and this whole process as Electronic Banking.

1.5.1 Delivery Channels in Electronic Banking System:

The Delivery Channels are the means/modes through which the customers can transact their financial activities with the bank or online trading with third party. The convergence of Communication and Information Technologies in business sector especially in banking sector have innovated many electronic delivery channels. These electronic devices are being heavily used in banking as service delivery channels as per the convenience of customers in terms of time and place. In addition to above, the IT-Savvy Banks have been deploying electronic cards viz. Credit Cards, Debit Cards and Smart Cards etc. to provide more convenience to the customers in terms of availability of cash and online purchasing.

The technological developments have resulted in deployment of numerous delivery channels and electronic services such as:

1) Automated Teller Machines (ATMs) onsite or offsite,
2) Tele-Banking,
3) Internet Banking,
4) Mobile Banking,
5) Electronic Funds Transfer;
6) Magnetic Ink Character Recognition (MICR) based Cheque Clearing Systems,
7) Real Time Gross Settlement System,
8) Centralized Funds Management System (CFMS), and
9) Electronic Clearing Service (ECS).

In addition to above, the designing and implementation of Indian Financial Network (INFINET) has empowered the Indian Financial Market to carry over financial information in a quick, secure and robust manner. The biggest revolution in Indian Financial Market is the modernization of traditional Payment and Settlement System. The sound, secure and cost effective payment and settlement system is considered as the lifeline of any banking system.

The customers are gradually adopting alternative delivery channels offered by banks for their convenience. Initially the response was low, but over the past few years, the volumes of transactions have been increasing through non-branch banking channels. Keeping in view the interests shown by customers, the banks have been expanding their alternate delivery channels and it is expected that banks will provide more services in this area in coming future (Aggarwal, 2002). The Indian banks have been providing retail-banking services to their customers through various electronic channels such as:

1) Self Service Terminals (ATM- Automated Teller Machine),
2) Telephone cum Fax (Tele-banking),
3) PC- Personal Computer (PC Banking & Internet Banking), and
4) Mobile Phone (Mobile Banking).

The ATM is self-service Electronic Teller Machine that offers cash withdrawal/deposit at the convenience of the customers. In addition to above many other banking transactions can be performed such as deposit of cheque, recharge of mobile phone and funds transfer etc. These machines work round-the-clock and are economic in terms of setting up a physical bank branch. With the inter-connected
ATMs, the customers can avail self-banking service at any ATM irrespective of ATM of any particular bank/branch. The banks are becoming members of Shared Payment Network Groups to share their ATMs and to provide greater convenience to their customers.

The landline and mobile phones are being used as a service delivery channels by the banks to provide financial service to their customers. The customer is required to dial a number and respond as per Interactive Voice Response System (IVRS) to avail banking services. The system is available in many regional languages for the sole convenience of the customers. The following are the features of this system:

a) Balance Enquiry on Saving, Current and Term Deposit Accounts,
b) Request to send financial statements by fax, email or post,
c) History of performed transactions,
d) Request for new Cheque book,
e) Stop Payment of Cheque,
f) Transfer of funds,
g) Utility Bill Payments,
h) Renewal of term deposit accounts, and
I) Latest information on applicable interest rates, forex (foreign exchange) rates and service tax etc.

The PC banking is in use in banking sector to transact banking transaction through customer’s personal computer. The transaction is done in digital form via dedicated phone lines (either analog- by modem-or using an ISDN adapter) or in wireless mode. There are two types of PC banking:

1) Purely PC banking: Transactions are conducted within a closed user group network. But for this banking, the customer needs specific software, which in turn is provided by the bank. The customers install the software in his/her computer to perform banking transactions. The media to transfer financial information may be telephone lines, ISDN or wireless communication system that connects the customer’s
personal computers to bank’s server. This facilitates in fast movement of financial information, quick delivery of services and easy reconciliation of accounts, and

2) Internet Banking: The introduction of Internet Banking has brought the revolution in Banking System all over the globe. This is fast growing and popular delivery channel.

In banking, the Internet has been providing ever-growing market both in terms of number of potential customers and wide geographical reach. The technological developments have made the access to Internet cheaper and faster. Anybody accessing Internet is a potential customer irrespective of his or her location. Thus, any business targeting consumers cannot ignore the business potential of Internet (RBI, “Internet Banking”, 2005). That is why, the RBI had realised the need of Internet as a service delivery channel in Indian Banking Segment due to its cost-effective, easy and high geographical reach? The Internet banking is a part of the Electronic Banking (E-Banking). The main difference between E-Banking and Internet Banking is the mode of delivery channel i.e. the use of Internet. Although E-Banking and Internet Banking have many things in common but Internet being a public domain requires many additional security measures (RBI, ”Internet Banking”, 2005).

The Internet Banking provides the following facilities to the customers:

− Account Enquiry: a) account summary, and b) account statement with option to view or print

− Request & Notifications: a) request to issue new cheque book, b) request to account statement by electronic mail (email), c) request to issue of demand draft, d) request to stop payment of cheque, e) notify change in living address, f) notify loss or stolen Debit/ATM/Credit Card, g) request to know the status of unclear payment instruments (cheque/demand draft), h) request to send alerts on other communication channels on changes in account balances, i) request to open new accounts (saving, current, term deposit), h) request for loan.
− Financial Transactions: a) funds transfer among customer’s accounts with in the same branch, b) funds transfer among others’ accounts within the same bank, c) funds transfer to third party account maintained in other bank, d) funds transfer to debit cards of the beneficiaries.

− Additional Services: a) online shopping, b) brokering services, c) reservation of hotels and rail/air tickets, d) tax payments, e) mailer facility from the bank to interact with relation manager, f) utility bill payments.

− Customisation: a) customisation of accounts with nick names, dates formats, b) setting of alerts on change in account balances, c) to make changes in password, d) set limits on payment transfer.

The Internet Banking has been divided into three categories/levels: 1) Informational (Type-I) Level Internet Banking, 2) Communicational (Type-II) Level Internet Banking, and 3) Transactional (Type-III) Level Internet Banking. The detail of these services is as below (RBI, “Internet Banking”, 2005):

− Informational Level Internet Banking is the basic level of Internet Banking Service being provided by the banks in India. It merely includes the information on the products and services - the banks have been offering to their customers including addresses of their branches.

− Communicational Level Internet Banking provides intermediate level of service to their customers like information on their account’s balance, status of unprocessed cheques and others. It allows the customers to submit their instructions, and applications for different services etc. but do not allow any fund-based transactions on their accounts.

− Transactional Level Internet Banking is the advanced level of Internet banking and very few banks are providing this facility to their customers. It allows the customers to operate their accounts for transfer of funds and payment of different bills.
The Internet Banking permits the customers to avail banking service from any place whether it is cyber café, home or office via Internet. The Internet Banking has become more than just a form of PC banking that is traditionally availed through personal computer. Due to latest innovation in Information Technology (wireless communication) and diffusion of technology, the Internet Banking is available on mobile phones, Personal Digital Assistants (PDAs) or small hand-held PCs etc. (Deutsche Bundesbank, 2000). The increasing use of mobile phones as a media of communications has been forcing the banks to use it as a service delivery channel. The customer is able to avail majority of banking services by his/her mobile phone irrespective of time and place. The mobile banking is a vivid example of how the lines between various forms of E-Banking are becoming increasingly blurred (Deutsche Bundesbank, 2000).

The banks have been providing E-Banking service to the corporate sector through Electronic Funds Transfer (EFT) and Electronic Data Interchange (EDI). In India, the RBI has been providing the Electronic Funds Transfer facilities to banks for fast and secure communication through the following: 1) Centralised Finance Management System (CFMS), 2) Funds Transfer (Electronic Funds Transfer, National Electronic Funds Transfer, 3) Real Time Gross Settlement System (RTGS), and 4) Electronic Clearing System (ECS) etc. For these electronic services, the Indian Banks have been making use of INFINET (Indian Financial Network) as a communication channel with SFMS (Structured Financial Messaging System) for secured communication over the network with latest available security technologies in the world.

The newly deployed Core Banking Solutions offer seamless flow of transactions across different channels (branches, the internet, the telephone and automated teller machines or ATMs) on a real time basis. (Alexander, 2003). The CBS is the complete solution to all Electronic Banking Services and it integrates all the electronic banking channels at a single platform. The base of CBS is centralised management of customers’ accounts database so that changes made at one branch are automatically reflected at all the branches on national network without any further human intervention. The implementation of CBS allows the banks to have an overview of the customers’ expectations including their behaviour and building of strong relations...
with customers by implementing Customer Relationship Management (CRM) programmes in addition to have up-to date availability of information through data-warehousing and data-mining. Under CBS Branch, a customer is able to do transactions including deposit of cash and cheques etc. “Setting up the CBS is like changing the engine of an old car. Once this is done, everything will fall in place – phone banking, internet banking, ATMs. The new private banks kicked off operations on a technology platform. The state-run banks are now trying to catch up.” (Alexander, 2003).

Electronic Banking is the key segment of electronic commerce (E Commerce), which, in turn, encompasses all type of business, transacted through electronic networks. Electronic channels are used for both business-to-business and business-to-customer transactions. In banking segment, it is the delivery of the banking products and services through Telephone, Fax, PC, Internet, Mobile Phone or Self-Service Terminals etc. (Deutsche Bundesbank, 2000). The E-Banking is considered to be a segment of E-Commerce because the banks are involved in performing their business transactions via electronic media such as electronic transfer of money. The electronic transfer of money is done via various channels like Internet, Mobile Phone, Digital TV or Telephone etc.

“E-Banking is not a banking product; rather, it describes the way transactions are conducted. E-Banking may be understood as a catch-all term which covers the different ways of transacting banking business electronically. The terms- PC banking, online banking, internet banking, telephone banking or mobile banking refer to a multitude of ways in which customers can access their banks without having to be physically present at a bank branch. Nowadays, in fact banks are involved in E-Commerce in a variety of ways, including cooperation with internet service providers (ISPs), the issuing of e-money or the execution of payments etc.” (Deutsche Bundesbank, 2000).
1.5.2 Building Block of E-Banking:

The foundation pillar of E-Banking is the automation of banking operations, processes, data and services into digital form. The computerization or automation of bank branch means digitization of processes/ information in addition to inter-connectivity with other players of banking system to exchange information by sharing infrastructure. The computerization of branch is the main requisite condition to move towards online banking or E-Banking but automation in isolated form does not play active role. The main objective of E-Banking is to provide right information to the right user (customer or bank) at the right time and at the right place. The e-Banking is the consolidation and accessibility of all branches’ database at a central location by using distributed database-computing technology. In addition to this, it uses data mining and data warehousing technologies on consolidated customers’ database to facilitate the strategic planners to identify potential customers, markets and possibilities of emerging opportunities and risks.

The whole system of E-Banking is dependent on the following pillars:

- **Computing Technologies**- all hardware and software required for conversion of all manual processes into digital form,
- **Inter-connectivity** of systems within the branches to exchange information within the branch, one bank branch to other branches and one bank to other banks,
- **Content**- the actual information that flows between the customers and the bank. The quick, accurate and authentic flow of information is significant for development of E-Banking and trust building,
- **Users**- the customers and bank employees who use the content of financial information,
- **Trust and Security**- refers to all those measures that help the customers to build confidence in the electronic banking system such as deployment of PKI (Public key Infrastructure) and Digital Signature, and
- **Legal framework**- is the policies of the banks and in turn of the Government, to provide legal framework to electronic banking such as implementation of
“Information Technology Act 2000” to provide legal support to electronic commerce based transactions.

The following figure no. F 1.7.2 shows the building block of Electronic Banking.

![Diagram of Electronic Banking](image)

**Figure No. 1.7.2**

**Electronic Banking (E-Banking)**

The existence of E-Banking is totally unimaginable without automation and interconnectivity of branches. It is the use of telecommunication technologies that carries the financial information from one place to another and solely dependent on available bandwidth of the media. The infrastructure such as telephone lines, ISDN (Integrated Services Digital Network), leased line and VSAT (Virtual Satellite Aperture Terminal) etc. plays vital role in modern banking system. To acquire real benefits of E-Banking, it has become mandatory to integrate applications of Information and Communication Technologies (ICT) with banking processes. Because, the computing and modern communication technology facilitates in timely generation of various reports and send/receive data instantaneously from one location to another.

The bank branches interconnectivity is very important for the availability of anytime and anywhere banking service at the customers’ end and reconciliation processes at the bankers’ ends. It is only because in traditional system, the operations are conducted manually at different places and the processes of reconciliation become difficult. Therefore, the first step is to computerise (automate) all the operations at branch level and the second step is to connect various branches of the bank. This is, what we call,
connectivity (Rangarajan, 1996). The core users of E-Banking are banks and customers who have been helping to implement it successfully and harness its full capabilities to achieve the real objectives of banking in terms of progress, sustainability and competitive edge in the market. The nucleus of E-Banking revolves around three main entities viz. Technology, Customers and Banks. If any of three is not playing its actual role then whole concept of E-Banking is a flop show.

The technology helps to get information, do processing and its further transformation as per the user’s requirements in customised form. The deployment of service delivery channels and availability of services are entirely dependent on technology. The E-Banking uses technology as a platform to deliver services in secure, user-friendly, cost effective, integrated and speedy form to the end users. The deployment of various service delivery channels facilitates the banks to moderate their payment and settlement systems with the assistance of Electronic Data Interchange (EDI), Electronic Funds Transfer (EFT), Special Electronic Funds Transfer (SEFT), Real Time Gross Settlement System (RTGS) and Electronic Clearing Service (ECS) etc. Good banking means to work towards sustainable customers’ satisfaction and overall development of the economy. Significant cost savings, best quality of services and sustainability of the customers are the ultimate goals of good banking. The E-Banking makes strategic use of Information and Communication Technology to facilitate every category of customers whether individual or corporate. The banks can’t further afford to restrict themselves to pass national rules and boundaries due to cross border nature of the electronic banking (Deutsche Bundesbank, 2000).

In nutshell, the E-Banking is the on demand availability of banking service without any restriction of time and location. It is to enhance/fueling overall efficiency of the bank in addition to productivity and profitability, building of strong relationships between customers and banks and opening up of new avenues to design and to deploy new products and services in potential markets. The objectives of the E-Banking are similar to traditional banking but difference lies on service accessing platforms, speed, convenience, transparency, accountability and cost.
1.5.3 E-Banking Characteristics:

As the businesses are becoming increasingly digitised, the business models of financial institutions are also changing very fast. Banking is a business activity and E-Banking is its digital form, so E-Banking model is different than the traditional banking system.

The following are the characteristics of modern banking system i.e. E-Banking (Deutsche Bundesbank, 2000):

- The transaction in electronic banking is no longer confined within the national borders due to their virtual nature i.e. electronic commerce based transactions. This intends that the banks need to cooperate even more closely with foreign bank’s authorities than in the past.
- The secure and efficient deployment of ICT has become the crucial strategic factor for the success of electronic banking. Every stage of E-Banking since its implementation, operations, development, production of products and services, and their availability in market are entirely dependent on IT. More importantly, the banks’ dependency on innovative channels and particularly on internet increases the strategic and operational risks for the banks.
- The innovative cycles for new products on the Internet are becoming shorter and shorter due to rapid pace of technological changes. In some cases, the technology behind some products is already obsolete well before those products are ready for marketing.
- Technology and the increased market transparency reduce the information opaqueness between the bank and its customers. Thus, the existence of Internet causes the shift of banks’ power towards the customers. The customers are being provided a very high quality of service, short answering times and user-friendly banking services. Besides, E-Banking facilitates the customers to make easy access to several banks at a time, faster transactions which are not tied to specific locations and specific opening hours.
- Several factors have conspired to include this effect. The greater ease with which prices and products can be compared has in turn enhanced the market transparency. The market entry barriers for the new competitors have been
lowered. The internet and online customers display little brand loyalty and E-Banking customers are focusing ever more on costs and profit margins.

1.6 Global Scenario of E-Banking:

The banking industry is expected to be a leading player in E-business. While the banks in developed countries are working primarily via Internet as non-branch banks, banks in the developing countries use the Internet as an information delivery tool to improve relationship with customers.

In early 2001, approximately 60 percent of E-business in UK was concentrated in the financial services sector, and with the expected 10-fold increase of the British E-business market by 2005, the share of the financial services will further increase. Around one fifth of Finish and Swedish bank customers are banking online, while in US, according to UNCTAD, online banking is growing at an annual rate of 60 percent and the number of online accounts has approximately reached 54 million by 2010.

Banks have established an Internet presence with various objectives. Most of them are using the Internet as a new distribution channel. Financial services, with the use of Internet, may be offered in an equivalent quantity with lower costs to the more potential customers. There may be contacts from each corner of the world at any time of day or night. This means that banks may enlarge their market without opening new branches. The banks in US are using the Web to reach opportunities in three different categories i.e., to market information, to deliver banking products and services, and to improve customer relationship.

In Asia, the major factor restricting growth of E-banking is security, in spite of several countries being well connected via Internet. Access to high-quality E-banking products is an issue as well. Majority of the banks in Asia are just offering basic services compared with those of developed countries. Still, E-banking seems to have a future in Asia. It is considered that E-banking will succeed if the basic features, especially bill payment, are handled well. Bill payment was the most popular feature, cited by 40 percent of respondents of the survey. However, providing this service would be difficult for banks in Asia because it requires a high level of security and involves arranging transactions with a variety of players.
In 2001, over 50 percent of the banks in the US were offering E-banking services. However, large banks appeared to have a clear advantage over small banks in the range of services they offered. Some banks in US were targeting their Internet strategies towards business customers. Apart from affecting the way customers received banking services; E-banking was expected to influence the banking industry structure. The economics of E-banking was expected to favor large banks because of economies of scale and scope, and the ability to advertise heavily. Moreover, E-banking offered entry and expansion opportunities that small banks traditionally lacked.

In Europe, the Internet is accelerating the reconfiguration of the banking industry into three separate businesses: production, distribution and advice. This reconfiguration is being further driven by the Internet, due to the combined impact of:

- The emergence of new and more focused business models
- New technological capabilities that reduces the banking relationship and transaction costs.

Though E-banking in Europe is still in the evolutionary stage, it is very clear that it is having a significant impact on traditional banking activities. Unlike in the US, though large banks in the Europe have a competitive edge due to their ability to invest heavily in new technologies, they are still not ready to embrace E-banking. Hence, medium-sized banks and start-ups have an important role to play on the E-banking front if they can take concrete measures quickly and effectively.

1.6.1 Global Trends in E-Banking:

Banks increasingly operate websites through which customers are able not only to inquire about account balances and interest and exchange rates but also to conduct a range of transactions. Unfortunately, data on Internet banking are scarce, and differences in definitions make cross-country comparisons difficult. Even so, one finds that Internet banking is particularly widespread in Austria, Korea, the Scandinavian countries, Singapore, Spain, and Switzerland, where more than 75 percent of all banks offer such services (see chart). The Scandinavian countries have
the largest number of Internet users, with up to one-third of bank customers in Finland and Sweden taking advantage of E-banking.

Finland was the first country in the world to take a lead in e-banking. Online banking was launched in Finland in the year 1996. It has become common place across that country with penetration rates of over 50 per cent, with penetration rates of over 60 per cent among private bank customers and in some age categories (35-49) in the year 2004 to the Finnish Banking Association’s survey of usage of credit, the penetration rate is over 70 percent (Pikkarainen et al., 2006)

As per the latest results about 84 percent of the Finns use Internet today with the usage of Internet banking at 67 percent for activities such as bill payments. This is a tremendous leap from only 4 percent of the interviewees using Internet for bill payments in the year 1992. The usage of ATMs and Tele-banking is found to be coming down according to the Finnish Banking Association survey Spring 2010 report on ‘Saving and borrowing in Finland’. The number of people paying bills on ATMs has decreased further as compared to the previous year (2009). Use of direct debit has increased slightly in the past year while use of payment service has decreased a little. Telephone is used for paying bills by a very small number of Finns, only one per cent of the respondents. According to this report while 88% of respondents aged between 18 and 34 years pay their bills on the internet, the corresponding figures for age groups 55 to 64 years and 65 to 74 years stand at 50% and 20% respectively.

More than 50 million of the US adult population is banking online according to a new survey by the Pew Internet & American Life Project (Susannah Fox and Jean Beier, 2006). This is a major growth considering the fact that in the year 2000 only about 14 million people used online banking sites. This has been facilitated by the growth in broadband connections, as it is found that broadband users are twice more likely to use internet banking than dial up connection users.

Survey on internet banking in U. K. by Forrester Research during 2007 showed that about 31 percent of British adults use online banking. This is despite the fact that about
two thirds (67%) of the British are regular users of the internet. Only about 46 percent of the internet users in Britain bank online. The main reason why non-users are not going for net banking is because they are happy with the other channels, with 44% of them stating that they are happy to visit their branch, while others preferred banking through ATMs (33%) and telephones (11%). Security as a reason of non-usage was cited by only 31% of the nonusers.

The study by Laforet and Li, 2005 in China shows that most of retail banks were providing online banking as add-on services to the existing branch activities and the mobile banking was in the initial stages. From their survey among six major cities in China among the relatively wealthy and youth segment who were the potential target segments for online/mobile banking they found that only 33% and 14% used internet and mobile banking respectively. These findings however, they said, were not representative of the Chinese population as a whole since the population in rural areas was not included in the survey considering the lack of accessibility and internet infrastructure.

1.6.2 Experience of India on E-Banking:

India is still in the early stages of E-banking growth and development. Competition and changes in technology and lifestyle in the last five years have changed the face of banking. The changes that have taken place impose on banks tough standards of competition and compliance. The issue here is – 'Where does India stand in the scheme of E-banking.' E-banking is likely to bring a host of opportunities as well as unprecedented risks to the fundamental nature of banking in India.

The impact of E-Banking in India is not yet apparent. Many global research companies believe that E-banking adoption in India in the near future would be slow compared to other major Asian countries. Indian E-banking is still nascent, although it is fast becoming a strategic necessity for most commercial banks, as competition increases from private banks and non banking financial institutions.
Despite the global economic challenges facing the IT software and services sector, the outlook for the Indian industry remains optimistic.

The Reserve Bank of India has also set up a "Working Group on E-banking to examine different aspects of E-banking. The group focused on three major areas of E-banking i.e. (1) Technology and Security issues (2) Legal issues and (3) Regulatory and Supervisory issues. RBI has accepted the guidelines of the group and they provide a good insight into the security requirements of E-banking. The importance of the impact of technology and information security cannot be doubted. Technological developments have been one of the key drivers of the global economy and represent an instrument that if exploited well can boost the efficiency and competitiveness of the banking sector. However, the rapid growth of the Internet has introduced a completely new level of security related problems. The problem here is that since the Internet is not a regulated technology and it is readily accessible to millions of people, there will always be people who want to use it to make illicit gains. The security issue can be addressed at three levels. The first is the security of customer information as it is sent from the customer's PC to the Web server. The second is the security of the environment in which the Internet banking server and customer information database reside. Third, security measures must be in place to prevent unauthorized users from attempting to long into the online banking section of the website.

From a legal perspective, security procedure adopted by banks for authenticating users needs to be recognized by law as a substitute for signature. In India, the Information Technology Act, 2000, in section 3(2) provides for a particular technology (viz., the asymmetric crypto system and hash function) as a means of authenticating electronic record. Any other method used by banks for authentication should be recognized as a source of legal risk.

Regarding the regulatory and supervisory issues, only such banks which are licensed and supervised and have a physical presence in India will be permitted to offer E-banking products to residents of India. With institutions becoming more and more global and complex, the nature of risks in the international financial system has changed. The Regulators themselves who will now be paying much more attention to the qualitative aspects of risk management have recognized this.
Though the Indian Government has announced cyber laws, most corporate are not clear about them, and feel they are insufficient for the growth of E-commerce. Lack of consumer protection laws is another issue that needs to be tackled, if people have to feel more comfortable about transacting online.

Taxation of E-commerce transaction has been one of the most debated issues that are yet to be resolved by India and most other countries. The explosive growth of e-commerce has led many executives to question how their companies can properly administer taxes on Internet sales. Without sales tax, online sellers get a price advantage over brick and mortar companies. While e-commerce has been causing loss of tax revenues to the Government, many politicians continue to insist that the Net must remain tax-free to ensure continued growth, and that collecting sales taxes on Net commerce could restrict its expansion.

A permanent ban on custom duties on electronic transmissions, international tax rules that are neutral, simple and certain and simplification of state and local sales taxes. The Central Board of Direct Taxes, which submitted its report in September 2001, recommended that e-commerce transaction should be taxed just like traditional commerce.

Also RBI is about to become the first Government owned digital signature Certifying Authority (CA) in India. The move is expected to initiate the electronic transaction process in the banking sector and will have far-reaching results in terms of cost and speed of transactions between government - owned banks.

Thus efficiency, growth and the need to satisfy a growing tech survey consumer base are three clear rationales for implementing E-banking in India. The four forces - customers, technology, convergence and globalization have the most important effect on the Indian financial sector and these changes are forcing banks to redefine their business models and integrate technology into all aspect of operation.
1.7 Need of Electronic Banking in Indian Banking System:

In India, the commercial banking is based on branch banking system in which several bank branches are geographically spread throughout the country or abroad and managed by their controlling (Regional/Zonal/Head) offices. There are also some special branches that deal with exports and imports activities. In India, the branches are of different kinds, small, medium, large and service branches. The location wise distribution is rural, semi-urban, urban and metropolitan branches. The branches are the original data processing centres which handle huge volume of business transactions. The branches periodically sent various financial and other reports to the main offices like present account status, account handling types, revenue generated and credit/deposit ratio etc. The information generated at branch level is used by the controlling offices for proper monitoring of activities of the banks and overall financial health of the bank. The Regional/Zonal Offices and Head Offices are responsible to issue periodic control directions to the branches for better functioning and compliance.

Similarly, the branches also deal with distinct types of customers, but broadly these are: 1) Individuals Customers (personal/retail banking), and 2) Commercial Customers. Personal Banking is related with various deposit accounts of different categories like Saving, Current, Fixed Deposit, Recurring Deposit and Loans etc. The retail banking segment related to credit delivery like home loans, personal loans, vehicles, advance against shares & securities, life policies etc. Business/corporate customers need different types of credit facilities, remittances of funds, collection of receivables, issue of letters of credit and guarantees etc. Besides maintaining the data of various customers and others at Regional/Zonal offices or Head Office, the banks have also to maintain inventory of employees/officers, process pay roll, reconcile inter-branch transactions, scrutinise/audit of Management Information System (MIS) return and advise follow-up measures. Head office of the bank has to handle Investment Transactions, Asset-Liability Management, Centralisation and Finalisation of Accounts and Statutory Responsibilities etc. (Kannan, “Designing a System of Computerisation”, 2003).
As any business needs human agents for production, marketing, finance etc. similarly more and more people were employed to perform above low-level tasks in Indian Public Sector Banks. In India, the Service Sector Organisations came in the fore-front to inherit overload of white-collar employment. For example, a major nationalised bank in India, which employed merely 3000 workers in the Fifties, came to engage over 70,000 employees towards the end of the 2000 (Kannan, “Indian Banking Goes Electronic”, 2002). The traditional employed tools were "pen, ink and paper", the knowledge of arithmetic tables, the basic knowledge of a language and minimum acquaintance with rules & procedures of the organisation were followed day-in/day-out. “Two plus two is four, it is always four” was relevant to the job of the particular employee (Kannan, “Indian Banking Goes Electronic”, 2002). The high recruitment of employees by the Government at clerical and subordinate levels and their involvement in non-innovative works led to frustration and unionism among them. They organised themselves into powerful trade unions and aggressively utilised the bargaining power without reference to the input benefits to the organization in terms of productivity and efficiency (Kannan, “Indian Banking Goes Electronic”, 2002).

The (Kannan, “Indian Banking Goes Electronic”, 2004) has beautifully compared the statistics of two leading Indian Banking Institutions-the largest (State Bank of India) and the next large in size (the ICICI Bank. The State Bank of India had about 2.3 Lakh workers, for a turnover of Rs.36,000 Crores whereas the ICICI Bank had 10000 employees for a turnover of Rs.23000 Crores respectively during the early years of 21st century. The ICICI Bank started functioning from the year 1997 and has gained the number two positions in status in India after SBI in volume of business turnover within 5 years of its operation. The CMD (Chief Managing Director) of the ICICI Bank draws annual emoluments of Rs.150 Lakhs, while CMD of State Bank of India (SBI) around Rs.4 to 5 Lacs. ICICI is a new age high-tech and fully computerised bank, while SBI had retained its manual operations in totality up to the year 1993 and maintained the work force of that time up to 2001, though it was partially computerised starting from the year 1993. The turnover per employee for ICICI Bank
was Rs.2.3 Crores that for the SBI was Rs.1.56 Lakhs. The gap accounts for the difference between manual operations and high-tech banking.

The state owned banks had around 10 lakh employees during the year 2002. The computerisation has been bringing rapid changes in banking sector. By the year 2010, the present turnover of commercial banks in India may double or even treble to around Rs.30 to 40 Lakh Crores, but these Banks will have no need of 75 percent (today 25 percent of the work force is subordinate staff, 50 percent is clerical staff and 25 percent is the officers) of the existing workforce. The objective of the recently launched Voluntary Retirement Scheme (VRS) is to prepare the banks with this reality where future banking will be more Tech-Savvy and less people based (Kannan, “Indian Banking Goes Electronic”, 2002). The traditional system is not suitable to manage large volume of data and others activities. The diverse functions and processes of the banks have to be computerised in an integrated and secure manner, so that the data fed at one point reflects automatically at all the other points easily, where it is actually needed. The data input is very tedious, time consuming, error-prone and costly process, so that is why RBI has been stressing on the fully automatic bank branches and “Straight-through-Processing” to harness the full potential of IT in banking sector.

Moving towards the right direction, many Public Sector Undertaking banks in addition to Private/Foreign Sector have been implementing Core Banking Solutions (CBS) where database of the customers is managed centrally. The CBS eliminates the need to re-enter data at Regional/Zonal/Head Office level for compilation because data is stored instantaneously at banks’ servers managed at central location.

A well-planned deployment of IT has the potential to have following benefits to the Indian Banks:

- The Information Technology has significantly revolutionised the Indian Financial Market. It is being observed that dramatic changes have come in: a) designing & deployment of products and services, b) better market reach irrespective of physical boundaries and time, c) cost effective advertisement
channels to promote banking, d) prompt decision making systems, e) better management of resources, and f) quick delivery of funds by empowering existing payment and settlement system etc.

- The Information Technology has great potential to effectively monitor various financial activities and early detection of risks, frauds and undesirable incidents. For instance, the implementation of Real Time Gross Settlement System has been systematically reducing the settlement and systemic risks.

- The successful implementation of IT in banking has been facilitating Currency Management. It helps the banks to have a safe, secure and quick mobilization of funds in addition to have a better monitoring power than traditional banking.

- The uses of IT applications in the banking sector enhance customers’ conveniences by introducing new distribution channels. The boundaries of electronic banking is not limited to bank branch but it has blurred the physical boundaries and providing convenience to the customers to avail banking irrespective of time and place. IT has been facilitating the banks to introduce new products and services of world class banking to their customers in addition to high transparency in information flow.

It is concluded that E-Banking is a modern banking system. The E-Banking is changing the ways of doing banking business with modern technologies and techniques. The Electronic System has further enhanced the capacity and capability of overall banking system in terms of productivity, profitability, efficiency, quality of service and cost effective delivery of numerous products/services. The computerisation of branch is the main requisite condition to move towards e-Banking but automation in isolated form does not play active role. The main objective of e-Banking is to provide right information to the right user (customer or bank) at the right time and at the right place. The e-Banking is the consolidation and accessibility of all branches’ database at a central location by using distributed database-computing
technology. In addition to this, it uses data mining and data warehousing technologies on consolidated customers’ database to facilitate the strategic planners to identify potential customers, markets and possibilities of emerging opportunities and risks. It is a platform to deliver secure, user-friendly, cost effective, secure, integrated and speedy form of services to the end users.

1.8 The Rationale of the Study:

E-banking offers vast opportunities, yet even less than one in three banks have an E-banking strategy in place. According to a study, less than 15 percent of banks with transactional websites will realize profits directly attributable to those sites. Hence, 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.

In the fast-paced economy, banks have to keep up with the constantly evolving business models and technology innovations of the Internet space. Early e-business adopter like Wells Fargo not only entered the E-banking industry first but also showed flexibility to change as the market developed. Not many banks have been as e-business-savvy. But the pressure is now building for all banks to develop sound E-business strategies that will attract and retain increasingly discriminating customers.

The major problem with the banks, which have already invested huge amounts in their online initiatives, is that their online offerings remain unprofitable. Though banks have enrolled some existing customers in their online programs, they are not getting customers in large numbers. This has made banks wonder whether there is any value in the online channel. 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 customer retention.

Customers do not prefer to adopt e-banking for various reasons. Some of these reasons include usability features 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. Developing advanced features that appeal to a relatively small numbers of customers, creates far less value than strengthening core capabilities and getting customers to use them. Banks must make efforts to familiarize customers with their sites and show them how easy and efficient the online channel is to use.

The present study, therefore, focuses on the adoption of e-banking by the people