CHAPTER 2

INDIAN BANKING IN THE MODERN SCENARIO

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2.1. Introduction

The present chapter focuses on various aspects of modern banking. Apart from the discussion on conceptual and historical background of banking, there will be a discussion on the phases and reforms of Indian banking; different facets of banking: structure of Indian banking, banking in modern days, banking and information technology (IT), evolution of e-banking/internet banking, development of e-banking in India, different facets of e-banking (common internet banking services, types of internet banking, common modes of e-banking), e-Banking Service Marketing, financial innovations and recent trends in banking.

2.2. Evolution of Banking: A Brief Note

The word ‘bank’ originates from the French word ‘Banqui’ and the Italian word ‘Banca’. The bank was started as a bench for keeping, exchanging and lending coins or money in the market by money changers and lenders. Soon banks were founded to take care of the money of corporates and individuals. Gradually they became an establishment of financial institutions by government, authorized to provide various financial services and products to people for personal or business use (accepting deposits, fund transfer, paying interest, loans, check clearance etc.) (www.wikipedia.com; www.yourarticlelibrary.com). Presently, banks are offering an extensive range of new services besides the basic services - investment banking; exchange of foreign currency; mutual funds; online trading of shares; Demat services; insurance trades; public utility services (bill payments, e-tickets booking, educative services) etc. There are three basic functions of banking industry in an economy i.e. mobilization of savings, deployment of savings to investment ventures and operation of the payment system (Bonin et.al, 1999).

Before 1640 the word ‘banking’ was not in existence but the practice and concept of savings and safe-keepings grew in the temple of Babylon as early as 2000 B.C. In Arthashastra, about 300 B.C., Kautilya mentioned the existence of powerful merchants who used to give loans, receive deposits and issue hundis. Hundis were an indigenous financial credit instrument in promissory note form. These were used as a method of payment instrument for trade transactions or money transfer from place to place. The ‘Merchants’ developed the banking system by trading initially in commodities rather than using money. Merchants required remittances of money for trading
activities from one place to other places. For the purpose of remitting funds they gave ‘hundis’ and in India merchants were named ‘Seths’. Kautilya acknowledged the significance of accounting procedures in economic undertakings and also stressed the role of ethics in economic endeavors. He initiated rules of Book-keeping to record and categorize monetary data. Furthermore he attributed the effective administration of rules and regulations to their transparency, regularity and completeness.

The subsequent stage in the development of bank was the practice, started by the Goldsmith, as his business was facilitating special protection of jewelry and gold against theft. Gradually he became a popular and honest person and neighbourhood merchants started keeping their money, jewelry and bullion in his custody. With the popularity of this practice, the Goldsmith initiated charging something for keeping and safeguarding bullions, jewelry and money. He started issuing receipts for receiving and giving valuables. His receipt became a medium of payment and exchange of money or valuables on demand. Afterwards consequently the concept of the moneylender developed in banking. He initiated lending coins by charging interest as the coins (gold and silver) had no special marks of the owner. The goldsmith-money-lender turned into a banker, who performed two basic functions of banking, namely keeping deposits and advancing loans.

In 1157 in Venice, Italy the first bank was founded for funding the monarch and named as the ‘Bank of Venice’. In England the bankers of Lombardy were renowned. However modern banking arose after 1640 with the English Goldsmiths. The ‘Bank of Hindustan’ was the first bank in India established in 1770 in Calcutta by Alexander & Co., an English agency house. The bank failed in 1782 because of the closure of the agency. In 1806, in Bengal Presidency the ‘Bank of Bengal’ was established (WWW.yourarticlelibrary.com; WWW.quora.com).

2.3. Indian Banking: Historical Background

The earliest bank in India was established in 1770 and named the Bank of Hindustan. Afterwards three Presidency banks were established named as the Bank of Bengal (1806), the Bank of Madras (1843) and the Bank of Bombay (1840), set as the base of modern banking in India. Later the Imperial Bank of India (1921) were developed which carried out a restricted number of central banking activities before the establishment of the Reserve Bank of India (RBI). It was tied up with
various commercial banking business activities excluding trade with foreign exchange. In 1934 the Reserve Bank of India (RBI) Act was approved. The Reserve Bank of India (RBI) was founded as a head body for all banks. In 1949, the Banking Regulation Act was passed which took the RBI under the control of the government. According to the Act, RBI got extensive powers and was authorized to supervise and control banks. The Imperial Bank of India was taken over by the RBI in 1955 and was renamed as the ‘State Bank of India’ (SBI). The SBI took over eight private banks in 1959 to make them its 100% state subsidiaries. In 1960 the RBI was authorized to merge weak banks with strong ones and so the number of banks got reduced from 566 in 1951 to 85 in 1969. The Government nationalized fourteen (14) banks possessing Rs 50 Crores and above deposits in July 1969. Afterwards the Government absorbed six (6) more banks possessing more than 200 Crores deposits in 1980. The main purpose behind the nationalization of banks was to develop them as a strong facilitator in the economic growth of India. For acceptance in international banking practices an extensive range of reforms in the banking sector was suggested by the Narasimham Committee Report in 1992. Afterwards in 1993 in the light of the Amendment of Banking Regulation Act, new private sector banks entered into the banking sector. For the economic growth of the country, banking industry acts as a backbone. Indian banking confronted a number of challenges even during the world economic crisis but the regulatory framework of India saved it from world economic crisis.

2.4. Indian Banking: Different Stages of Reform

2.4.1. Pre-Independence Phase (1720 to 1947)

The English Agency House of Bombay and Calcutta brought the western style of joint stock banking in India. In 1720, the first bank in the set-up of joint stock was started in Bombay and named ‘the Bank of Bombay’ followed by ‘the Bank of Hindustan’ in 1770 in Calcutta by the agency house. Later in 1773, the General Bank of Bengal and Bihar came into existence. Afterwards three more independent units were established by the East India Company and named as Presidency Banks. The first presidency bank was ‘the Bank of Bengal’ (Calcutta, 1806) followed by ‘the Bank of Bombay’ (Bombay, 1840) and ‘the Bank of Madras’ (Madras, 1843) (RBI, Report, 2008).
The Allahabad Bank was the first bank which was founded by Indians in 1865, followed by the Punjab National Bank Ltd. (1894), the Bank of India (1906) established under private ownership. From 1906 to 1913 many Indian commercial banks were established e.g. the Canara Bank, the Central Bank of India, the Bank of Mysore, the Indian Bank and the Bank of Baroda. Many Co-operative Agricultural Credit Societies and some urban Co-operatives were also established with the purpose of fulfilling banking and credit necessities of people and to defend them against exploitation.

In 1934, the Reserve Bank of India Act was passed in the light of important recommendation of the Central Banking Enquiry committee. Consequently in 1935 the Reserve Bank of India (RBI) was authorized as the central banking authority of the Indian banks to control the concern of banknotes, conserve reserves with a vision to safeguard financial stability and to control the currency and credit system.

During the Pre-Independence Phase banking was more concentrated on urban areas. The credit necessities of the rural region and the agriculture area were ignored. These matters were considered relevant for economic growth and focused after the independence of India (RBI, Report, 2008).

2.4.2. Pre-Nationalization Phase (1947 to 1968)

In 1947, in India, 684 commercial banks were in existence among them 97 were scheduled banks and 551 were non-scheduled banks. The number of bank offices rose to 2,987, the total deposits to Rs 1,080 crore and advances to Rs 475 crore. The Indian banking was totally focused on the private sector at the time of Independence. There were 6 big banks, each possessing Rs100 Crore and more public deposits i.e. the Imperial bank, the Punjab National Bank Ltd., the Central Bank of India Ltd., the Bank of Baroda Ltd., the Bank of India Ltd. and the United Commercial Bank Ltd. Other commercial banks possessing less than Rs. 50 Crore were also in the private sector.

After independence the prime task in front of the Reserve Bank was the development of a sound banking structure in conformity with up to date and modern day outline. The Reserve Bank was authorized to control the banking system and supervision as central banking authority under the Banking Companies Act of 1949. In 1967, the policy of social control over the banks was introduced with the aim of changing the distribution and management of credits by commercial
banks for economic expansion. In 1968, the National Credit Council was established to measure the demand for credit and to regulate the allocation of resources. The period of 1960s is also viewed as a significant phase in the banking industry because of large level of amalgamation (more than 500 banks were running in the 1950s which were reduced to 89 by 1969) (RBI, Report, 2008; Indian Banking Year Book 2009, IBA).

2.4.3. Nationalization-Phase (1969 to 1990)

The Indian banking system significantly progressed from 1950 to 1960 and it was mainly concentrated in urban regions. The Government of India passed the Bank Nationalization Act in 1969. Under this act 14 major scheduled banks (each bank possessing Rs.50 Crore) were nationalized with the purpose of channelizing the funds for social justice, speedy agricultural growth, increasing employment opportunities, development of small industry and exports, growth of undeveloped and rural areas, encouragement of entrepreneurs and overall economic growth. The banks that were nationalized are listed in following table:

Table 2.1. Nationalized banks under Bank Nationalization Act 1969

<table>
<thead>
<tr>
<th>Nationalized Banks under Bank Nationalization Act 1969</th>
</tr>
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<tbody>
<tr>
<td>1. Allahabad Bank</td>
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<tr>
<td>2. Bank of India</td>
</tr>
<tr>
<td>3. Bank of Maharashtra</td>
</tr>
<tr>
<td>4. Bank of Baroda</td>
</tr>
<tr>
<td>5. Central Bank of India</td>
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<tr>
<td>6. Canara Bank</td>
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<tr>
<td>7. Dena Bank</td>
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<tr>
<td>8. Indian bank</td>
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<tr>
<td>9. Indian Oversean Bank</td>
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<tr>
<td>10. Punjab National Bank</td>
</tr>
<tr>
<td>11. Syndicate Bank</td>
</tr>
<tr>
<td>12. Union Bank of India</td>
</tr>
<tr>
<td>13. United Commercial Bank</td>
</tr>
<tr>
<td>14. United Bank of India</td>
</tr>
</tbody>
</table>

Source:
https://asksreenivas.blogspot.in/2014/08/list-of-nationalized-banks-in-india.html
https://en.wikipedia.org/wiki/Banking_in_India
To gain the objective of meeting social justice and overall speedy economic growth the Government expanded and diversified banking services and extended the facilities to all deserving classes. In 1980, The Government of India nationalized six more banks each of which possessed Rs. 200 Crore and more (the name of the banks were (i) New Bank of India Ltd., (ii) Oriental Bank of Commerce Ltd., (iii) Corporation Bank Ltd., (iv) Punjab and Sind Bank Ltd., (v) Andhra Bank Ltd., (vi) Vijaya Bank Ltd.).

Nationalization brought about a remarkable growth and development in the Indian banking system. The focus of banks was more on the establishment of extensive bank branches, wide-ranging credit operations and vast deposit resources. The RBI set branch licensing policy and made efforts to open branches in backward, rural, semi-urban and under-banked states. The purpose was to fill the gap and decrease the inter-regional inequalities. From 1969 to 1991, the commercial banks in India made incredible progress in expansion of bank branches.

Another vital structural growth during this phase was the establishment of Regional Rural Banks (RRBs), founded under the Regional Rural Banks Act 1976, as state sponsored, rural oriented, regional-based commercial banks. The RRBs’ ownership devolves with the funding commercial bank, state government and the central government in which they were located.

In the end of this phase a constant fall in the performance of public sector banks was noticed and this became a major area of concern for government. The constant escalation in non-performing assets (NPAs) stood as a vital threat for the financial system stability. Therefore in the early 90s, banking reforms became an essential part of the liberalization. Consequently the emphasis of Government firmly shifted to liberalization and reforms of banking sector (RBI, report, 2008).

2.4.4. Reforms Phase (1991 onwards)

The reform phase of banking sector developed as an important period. This phase was begun in the early 1990s by central government as a part of the structural reform. In 1991, under the chairmanship of Shri M. Narasimham, the Committee on the Financial System (CFS) was formed by the Government of India. The purpose behind the formation of the CFS was to inspect all facets related to the organization, structure, procedures and functions of the financial system. The
recommendation submitted by the CFS in 1991, became the base of financial sector reforms applying to banks.

Financial sector reforms were introduced as a measure of complete structural reforms to accelerate functions, dynamism and efficiency of the financial sector. A phased and gradual approach was adopted by the Indian banking sector for financial sector. For policy formation a consultative approach was adopted, which empowered Indian banking sector to benchmark the financial services in contrast to international standards. It also facilitated market players’ the convenient lead time for smooth amendment and regulatory change (Ahluwalia, 2002).

Moreover, the reform phase of banking sector could be categorized into two sub-phases, i.e. First phase of banking sector reforms (1991-92 to 1997-98) and Second phase of banking sector reforms (1997-98 onwards) (RBI, report, 2008).

2.4.4.1. First Phase of Banking Sector Reforms (1991-92 to 1997)

The major concerns of the first phase of banking sector reforms were focused on strengthening the system and well-being of the sector. The vital problems faced in this phase were weak capital base, poor financial performance, low profitability, inadequate competition and weak system. The Narasimham Committee report recommended “operational autonomy” and “functional autonomy” to improve efficiency, productivity, profitability and effectiveness of banks.

Numerous remarkable actions were started by the Government and the RBI to strengthen capital position, improve banks’ profitability and well-being. Momentous improvement were spotted by the end of this phase in asset quality, financial performance, capital position, widening of net interest margins and development of competitive environment. Although vital improvements were noticed, still public sector banks’ NPA (Non-Performing Assets) level was high by international standards. Another concern that emerged in this phase was to reach the required capital adequacy ratio within the specified period.

Apart from the enhanced credit flow to agriculture in the begging of reforms, RRBs suffered from severe flaws at the end of this phase and therefore the need for restructuring RRBs arose to strengthen them. However, agricultural credit slowed down in this phase; still vital improvements were noticed in the profitability of the banking sector (RBI, Report, 2008).
2.4.4.2. Second Phase of Banking Sector Reforms (1998-99 and onwards)

The emphasis of the second phase of reforms was to take a gradual step towards achieving the international standards by improving prudential norms. A Committee on Banking Sector Reforms (CBST) under the chairmanship of Shri M. Narasimham, in 1998 recommended some important changes in the financial sector for strengthening the banking sector. The important recommendations were strengthening the banking system (new and higher norms for capital adequacy, categorization of asset quality), systems and methods in banks (implementation of international control systems, internal audits and inspection, concurrent audit of controls returns by banks, risk management system, controlling system for base level offices to higher level, skilled manpower development), focus on structural issues e.g. mergers, development of concept like narrow banking, diversification of ownership, functional autonomy e.g. branch realization, recruitment and creation of posts, credit delivery etc., transparent and fair processes and policy, timely review of banking laws by updating them etc. (RBI, report, 2008).
2.5. Different Facets of Banking

2.5.1. Indian Banking Structure

Reserve Bank of India (RBI) is the central bank and acts as a regulatory body of Indian banking industry. There are two types of banks in India: the first one is Scheduled banks and another is Non-scheduled banks as depicted in Fig 2.2 (Indian Banking Year Book, 2009, IBA, Mumbai).
A. Scheduled Banks

Scheduled banks comprise Co-operative banks and Commercial banks.

a. Cooperative Banks

Co-operative banks hold deposits, provide loans and other financial facilities to farmers, co-operatives, member-owned organizations and small businessmen (www.businessdictionary.com). Co-operative banks are small associates in terms of business volume in Indian banking sector, however its scope and reach are more than other banks especially in rural area. The number of State Co-operative banks are 31 with 450 branches functioning for growth of co-operative sector in India. An extensive network of 361 District Central Cooperative Banks (DCCBs) with over 7000 bank branches and 112000 Primary Agriculture Cooperative Credit Societies are functioning
for the rural populace, mainly for Indian farmers. In addition to the DCCBs above 350 Agriculture Cooperative and Rural Development Banks are working. The Co-operative bank may be categorized under Rural Co-operative banks and Urban Co-operative banks (www.rbi.org.in).

b. Commercial Banks

It is a profit-seeking bank which deals with credits and money, accepts deposits and keeps them with safety, generates credits by making advances from out of deposits to the needy. In Indian banking system it works as a mobiliser of savings. A bank is a pool into which flow savings, the idle household spare money and from which advances are given on interest to the needy people and businessmen who invest them for productive purpose. Commercial banks comprise Public sector banks, Private sector banks, Foreign banks, Regional banks.

i. Public Sector Banks

The major shareholders of public sector banks are either the Government of India or the RBI (Reserve Bank of India). SBI and its associates, nationalized banks and other public sector banks/scheduled commercial banks comes under Public sector banks. Presently in India there are 27 Scheduled Commercial (Public sector) Banks.

ii. Private Sector Banks

In India Private sector banks have been functioning since the foundation of the banking system. The IndusInd Bank was the first private bank in India. Most of the capital in the private sector banks is in the hands of private shareholders. In India private sector banks are of two types i.e. New Private Sector Banks and Old Private Sector Banks.

iii. Foreign Banks

The latest banking technology and their practices in banking activities were brought by the Foreign banks in India. Foreign banks have added more competition in the market and made Indian banking system more efficient and profitable. Almost all the foreign banks are niche players. In India 43 foreign banks are functioning as branches from 26 countries and 46 banks working as representative office from 22 countries.
iv. Regional Rural Banks (RRBs)

In different States of India, Regional Rural Banks (RRBs) are working as banking organizations at local level. RRBs have been formed to provide basic banking and financial services mainly to rural areas of India, though, RRBs may also have urban branches and may include urban areas for urban operations. The operation area of RRBs is notified by the Government of India. RRBs are executing many functions e.g. carrying out government operations e.g. dissemination of pensions, distribution of wages of Mahatma Gandhi National Rural Employment Gurantee Act (MGNREGA) workers, etc., facilitating banking services to rural and semi-urban areas, arranging Para-Banking facilities e.g. debit and credit cards, locker facilities etc. (www.wikipedia.org).

B. Non-Scheduled Banks

The banks possessing less than Rs. 5 Lakh capital as per the Second Schedule of the Banking Regulation Act of 1965 came under Non-scheduled banks and are not included in the second schedule of Reserve Bank. These banks are not under control of RBI. However, every month they have to show details and information regarding their business to RBI (Indian Banking Year Book, 2009).

2.5.2. A Discussion on Changing Face of Modern Banking

The banking industry emerges with new trends in modern days and evidently diversifying its strategies to operate and facilitate. Banks are experiencing a phase of commoditization and digitalization. In modern scenario, ‘delightful satisfied customers and their positive experience’ has become more essential than the objective of providing just financial services. To hold on a large market segment, banking industry has been persistently trying to know the implicit needs of the customer e.g. customers’ need and convenience, likes and dislikes, priorities etc. New technologies and devices are providing a vast range of opportunities and ways to do banking in modern days. Each and every day, new trails of varied services and products have been launched by different banks on their sites or they advertise them in the media to create awareness among their probable customers, even at bottom line population (www.happiestminds.com). Banking in modern days is shifting sharply towards digital banking. It enables effective conveyance and operational growth. The modern banking system varies from country to country based on the
political structure, economic condition and financial system prevailing in the country. Based on area, capacity of operations and business pattern banks are classified into several systems.

For so many years there has been the concept of unit banking vis-a-vis branch banking. Independent small banks with their own stakeholders and board of directors are known as the unit banking system. They are working in a particular town or have a limited defined area for operations. The trade of each bank is narrowed to only one office without any branch and which is known as localized banking. The concept of unit banking was invented and established in the U.S.A. whereas in the branch banking system each commercial bank has a branch network extant all over the country.

Other concepts that developed in banking were correspondent banking, group banking and chain banking. Correspondent banking system is an association of unit banks with bigger banks. It grew as an intermediary to eliminate problems of unit banking system by linking them with bigger banks. The big correspondent banks are further associated with bigger financial centers. Bigger banks reserve the cash of smaller banks as deposit and are named as correspondent banks. Through correspondent banking system a bank can operate its business transactions in different places without having branches in that place. In group banking system there is a holding company that may or may not be a banking company, controls two or more independently incorporated banks. The independent incorporated banks may be banks operating branches, unit banks or a grouping of the two. While in the chain banking system several independently incorporated banks are carried out under a common control other than holding company. That may be

- Through some group of individuals possessing and regulating many independent banks.
- Every single bank holds its distinct identity.
- Each bank executes its operations without the interference of central organization.

Further, the concept of pure banking vis-a-vis mixed banking has emerged. Based on lending operations the banking system is categorized into pure banking and mixed banking. Through pure banking system, the commercial banks can provide only short-term advances to trade, industry and commerce. Pure banking system is specialized in short-term finance and is a popular banking system in U.K. whereas through mixed banking system commercial bank combines lending and deposit activities with investment banking and performing the dual function of commercial and
investment banking. The mixed banking system offers both short-term and medium term loans, the best example of mixed banking system is the German banking system.

Other concepts developed in banking were relationship banking, narrow banking and development banking. Relationship banking put emphasis on the development of personal contacts with customers and maintaining them with continuous touch with customers who are especially valuable to the bank. Relationship banking also strives to retain customers and to attract new customers by developing good relationships. Narrow banking is a limited and restricted type of banking system which concentrates only on particular activities: to collect deposits, to invest or lend funds within a specific region under Government securities, while development bank is basically a development oriented, multi-purpose, specialized financial institution. It provides varieties of long as well as medium term financial assistance to business entities e.g. investments, loans, promotional activities, guarantee operations, particularly industrial development as well as economic development in general. It does not accept public deposits. The primary objective of the development bank is to support and stimulate economic development by encouraging entrepreneurial activity and investment. It facilitates financial support to both public and private undertakings. The major purpose of development bank is to fill the developmental gap and create regional growth balance. Industrial Finance Corporation of India was founded in 1948 and is the first Indian development bank (www.yourarticlelibrary.com).

The other important concepts developed in banking were universal banking, regional banking and retail banking. Universal banking system is an idea of comprehensive and broad banking activities. Universal banks are dealing with term loans as well as working capital requirements for developmental undertakings. The universal banks deal with corporate customers along with individual customers. They come up with the concept of combining the functions of modern financial services, traditional deposit taking, insurance cover, investment banking, selling long-term saving products etc. to expand the business undertakings (www.investopedia.com). Regional banks were established by the central Government in the form of Regional Rural Banks (RRBs) in association with the state Government. The purpose behind RRBs development was the facilitation of adequate and timely credits to small debtors in rural and semi-urban areas. RRBs’ operations are limited to a particular area allotted to them (www.shodhganga.inflibnet.com), whereas Retail banking is mainly focused on individual customers rather than corporate customers. The products
and services offered under retail banking are customer-oriented e.g. different types of loan (home loan, car loan, education loan etc.), financial assistance to purchase various durables, public interest services e.g. e-bookings, bill payments etc. Retail banking has a huge number of customers thus the transactions are also in large numbers. In present competitive scenario, offering to corporate clients creates market risk and credit risk, retail banking may remove market risk (www.shodhganga.inflibnet.com).

And last but not least class banking vis-à-vis mass banking. Some of the banks restricted themselves in providing service to the upper slice of pyramid with bigger pocket and known as class banking. Class banking is easier to handle and employees face less difficulties. Some of the banks which prefer class banking are: ICICI bank, Kotak bank, Axis bank, Yes Bank, Standard Chartered bank etc. Mass banking is also known as social banking and inclusive banking. Mass banking is motivated with the purpose of providing financial services to the unbanked. The target of mass banking is to cover all probable bottom of the pyramid. Mass banking facilitates financial services to maximum number of individuals. Some of the banks which prefer mass banking are SBI, BOB, Canara bank, PNB etc. In the modern scenario of banking market, banks are focusing on customer centric services. The majority of Indian banks are transforming from class banking to mass banking because of financial inclusion, market risk, credit risk and recently demonetization. The demonetization description has been seen as an intelligent shift from reduction of black money to the requirement for a cashless economy, experts sensitize it as a foundation of cashless economy that could hit the bottom lines transactions of banks. The present CBS (Core Banking Solutions) systems are planned for 'class banking' and not for 'mass banking'. However after post-demonetization more persons especially rural people are compelled to inherit the banking net (www.business-standard.com, www.rbidocs.org.in, www.anubrata.wordpress).

2.5.3. Banking and Information Technology (IT)

Banking in the present scenario is tremendously influenced and organized by information technology and telecommunication. Banking set-up has been transformed swiftly since the 1990’s (Jyoti et.al, 2014). Banks have been always trying to connect and adopt advancements of IT and telecommunication to enhance the quality of their products, services and to expand service delivery channels. That includes private and public network, dial-up connections etc. In recent days
personal computer, telephone, mobile phone and other electronic devices are also included for this purpose.

With the development of World Wide Web (WWW) and accessibility of internet, banks increasingly use ‘internet’ as a medium to receive and deliver services and products to customers. The banking industry has gradually focused on building secure internet connections and authentic websites to develop confidence among customers to use new banking technology. The commercial internet services in India was introduced by Videsh Sanchaar Nigam Limited (VSNL), a state owned telecom company on August 15, 1995 and was marked as the emergence of a new communication medium in Indian communication history.

Previously, the availability of internet connectivity was accessible to government administrators or selected researchers over the network of National Informatics Centre NETwork (NICNET) or Education and Research Network (ERNET). Gateway Internet Access Services (GIAS) was launched by VSNL for the public in India as IP/TCP dial-up connections (Ghosh, 1995). Private telecom companies were endorsed by Indian government in mid-nineties to enter the telecom industry. Initially private companies offered basic telephone services, wire-less services Global System for Mobile/Code Division Multiple Access (GSM/CDMA) and later on internet services as well. A number of companies ventured into telecom services because of its growth potential for instance Bharat Sanchar Nigam Limited (BSNL), Tata Teleservices, Reliance Infocomm, Bharti Tele-Ventures, Idea Cellular, Spice Communications and others.

Availability, affordability and quality of telecom services provided by companies attracted people and the number of internet users ascended from a few thousands to millions in present. Some of the statistics are as follows:
The last sixties was the era of evolution of internet and was developed by US military establishment. In 1969 at the beginning point of internet, The Advanced Research Projects Agency Network (ARPANET) was founded and now it has become an immensely extended communication network all over the world. The main usage of the internet in the early age of its evolution was predominantly for governmental and military communications. However, as technology advanced, the internet became more accessible and its usage expanded to various sectors including education, research, entertainment, and commerce. Today, the internet is a vital part of global communication and connectivity, playing a crucial role in shaping modern society and business operations.
development was e-mail and file transfer. Gradually in the 1990’s with the development of Hyper Text Transfer Protocol (HTTP) and WWW (World Wide Web) server transformed the way to use internet and expanded into many other activities. The World Wide Web endorsed network across the globe simultaneously increases the usability of the internet and it has become the source to explore enormous information for users.

By reviewing the internet usability for varied purposes, the software tool ‘Web browser’ was developed to access information and needed content, conveniently across the world. Progressively the internet became the medium not only restricted to gather information, e-mail and file transfer but also for commercial purposes and transactions. There was enormous increase in internet connection from mid-nineties. Varieties of user friendly technological innovations are the result of the popularity of internet and its use. Through the internet by using electronic medium, commercial activities get a new platform to display and facilitate products and services. Today nearly 40% population of the world has access to the internet. It was very less in 1995 (around 1%). The number of internet users has increased tenfold from 1999 to 2013. In 2005 the number of internet users reached the first billion, in 2010 reached the second billion and in 2014 was extended to the third billion users. The following figure and table show the number of global internet users:

**Figure 2.5. Internet World Penetration Rates by Geographic Region- June 2016**

![Internet World Penetration Rates by Geographic Regions - June 2016](image)


Penetration Rates are based on a world population of 7,340,093,989 and 3,566,321,015 estimated Internet users on June 30, 2016.

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Information Technology has strengthened banking infrastructure immensely and it is proven by the presence of secure, reliable, safe, effective communication and messaging system. In the Indian context “Indian Financial Network-INFINIT” (established in 1999) is working as an electronic platform for banking sector provided by IDRBT. Even though, there is a noticeable progress in electronic payment system, paper based instruments are still in trend, while the total value of the paper based payment has been gradually declining (Maenpaa, 2012; Safeena et.al, 2011; Malhotra et.al, 2009). Indian banks adopted the technology trends rather late in comparison with other major countries but still have been competent to leap-frog to up-to-date versions of technology.

Bank branches are progressing towards ‘digitalized networked banking’. With the advancement in IT the concept of digitalization emerged. Development of big data source solution has become possible with digital information (Srinivasa, 2011). The purpose behind digitalization is constructing a huge collection of digital resources to make them useful for various purposes. A number of tools and techniques are developed to grow digital resource, to manage and process huge amount of data. It is easy to extract useful information for specific purpose from digital resources by using right techniques for specific purposes. This has shown new prospects to banks to improve their efficiency and effectiveness by using and expanding existing applications and developing huge amount of digital resources. Digitalization helps banks to mine purposeful digital information that they have. Banks are evolving their working and business model by implementing digitalization (Balachandar, 2015).

2.5.4. Evolution of Electronic Banking (e-Banking)

Development of information technology in the banking industry has accelerated interaction among customers and banks (Giannakoudi, 1999). The revolution in information technology in the banking industry related to delivery channels and led to the initiation of ATMs (Automatic Teller Machine) in the early 1970’s (Clemes et.al, 2010). After ATMs, it took the shape of telephone banking in 1980s, personal computer (PC) banking in late 1980s and in early1990s (Giannakoudi, 1999).

Banking and finance sector started experiments on alternative delivery channels for their services and products e.g. home banking during the 1980’s in Europe and United States. In the beginning
of the 1980's electronic devices and internet facilities were not developed properly. Gradually with the development of extensive services of internet connectivity and electronic devices, the further prospects for development of home banking and new delivery channel for banks emerged. In the United Kingdom, the Nottingham Building Society (NBS) in 1983 introduced the first internet banking service. Initially internet banking facility was not as much developed as today. There were limitations on transactions and activities that could be executed by customers. In October 1994, the United States presented the first online banking service developed by a financial institution named Stanford Federal Credit Union. In Latin America Deutsche Bank launched the very first e-banking / internet banking project in 1996 and Citibank has developed a special “e-toolkit” worldwide through all its branches (UNCTAD, 2004).

Banks have positively and promptly responded to constant changes in the market, taking note of customers’ banking preferences, social trends, demographic shifts and innovations in information technology, government regulations etc. by adopting new technologies and strategies. Banks have adopted e-banking technologies for securing several benefits e.g. to enhance banking set-ups and operations, to improve and strengthen information system, to provide new delivery channel to customers for varied bank products and services, to minimize resource expense and maximize profit etc. Of late, banks have attained global reach through this innovative technology

2.5.5. Development of Electronic Banking (e-Banking) in India

The computerization in Indian banking industry became a reality after first the wage settlement signed with the Union of Indian Bankers Association (IBA) along with exchange banks association for the use of International Business Machines (IBM) and Information and Communication Technology (ICT) for inter-branch reconciliation. According to the report of Reserve Bank of India (RBI) in the 1980s the first stage of digitization of banking structure was started with the use of Advanced Ledger Posting Machines (ALPM). Since then the RBI has directed all the banks to step in for massive computerization at each and every branch level. The adoption of ICT in Indian banking sector can be categorized as follows

1. Introduction of mechanized banking in 1960
2. Introduction, association and diffusion of computer based banking industry in 1970
3. Integration and infusion of computer-linked communication based banking in 1980
4. Internet based banking and Digital banking (Techno-banking) in 1990 and onwards

Indian banking sector has endured transformation for a few decades. Previously banking sector was restricted to co-operative and nationalized banks. Then multi-national banks came. Bank branches functioned as an independent entity and worked on traditional mode of operations. There was no existence of multi-channel banking and information technology delivery channels e.g. ATMs, Net banking, tele-banking etc. (Mishra, 2001). It was the transformation phase when Indian banking sector was opened for private banks like ICICI and HDFC. Multi-channel banking grew as alternative banking medium with the entry of private banks. Customers got the options for conducting banking activities either with physical branches or through alternative multi-channels service facilities provided by banks e.g. ATMs, telephone, personal computer, mobile and internet. The factors like RBI guidelines, entry of private banks and increased competition in market enforced nationalized banks towards adopting new technology and also re-strategize their core functions.

In the 1980s with the development of Advance Ledger Posting Machines (ALPM) the evolution of modern banking technology originated. The regulatory central body of India the Reserve Bank of India (RBI) under whom numerous financial institutions, public and public sector banks etc. work, instructed all banks to step in for branch level computerization (Banking overview. www.banknetindia.com , 2003). In the first stage of ALPM there were two options available for banks, either to automate front office or back office, most of the banks opted to automate front office. The 1985 report of the Rangarajan committee assured that all the banks had to become computerized (Rakesh, 2002). At that time just a few public sector banks e.g. the State Bank of India focused on the branch level back office automation. In mid 1980s Total Bank Automation (TBA) was the second developmental phase for banks. Indian banks were impelled by the RBI to computerize their branches in the light of Rangarajan Committee Report and this was the beginning to induce software packages for banking application. In the late 1980s and early 1990s Total Branch Automation (TBA) was in full pace. In this phase total automation of bank branches with their own database was ensured for both front office and back office operations. In the third phase of development many new private sector banks arrived in the Indian banking sector. These banks were selected for an altered model of having a distinct centralized database by replacing multiple databases for branches. Later all the banks began the same practices and followed up on
this move by selecting appropriate application softwares that would be backing centralized operations. The middle 1990s was viewed as the era of rapid financial reforms and globalization together with revolutionary development in information and communication technologies. Advancement of information and communication technology came with a new idea of convergence of computer and communication technologies e.g. cell phones, mobile, internet etc. In the fourth phase of development ATM evolved as a new delivery channel. Evolution of ATM was the first stage to empower customers to handle their own transactions. An experiment named Suvidha in Bangalore city of India in early 1998 was marked as the second stage that exposed the power of technology and also showed how the range of technology can be amplified phenomenally with evident pace (Bimal, 2002). Afterwards the system came as payment alliances through different gateways. The next significant development trending now is the real-time gross settlement system of the RBI. Online, electronical transactions between banks can be done through the settlement system which makes collections very fast. In coming days net-based banking will become the most popular way to transact and the majority of the transactional services will be delivered through it. The operating cost of Net-based banking is much less than operational cost of conventional banking (Unnithan et.al, 2001). The Reserve Bank of India contributed a committee named Technology Up-gradation in payment system in 1994. Later on in 1996 on the recommendation of the committee, the Reserve Bank of India established an institution named IDRBT (Institute of Development & Research in Banking Technology). The main focus of the institute was information technology deployment in banking and financial sector.

The major transformation in Indian banking industry after computerization can be summarized as:

One, the transformation in banking industry started off with computerization of a limited number of basic functions and in the units of principal branches through the implementation of advanced ledger posting machines (ALPM). These techniques were intended to maintain the accounting functions of bank.

Two, the subsequent development was in the direction of automation of branches. This facilitated “Single Window Service” (SWS) concept which concentrated to facilitate various services through one window/counter/place to the customers (Srinivas, 2004).
Three, during this stage great transformation took place with the arrival of network based operations which were designed to develop interbank connectivity. Four, a significant transformational stage arrived with the infusion of user-friendly technology in the form of installation of Automated Teller Machines (ATM) and Core Banking Solution (CBS) adoption. Five, another stage of transformation occurred with the setting up of Institute for Development and Research in Banking Technology (IDRBT). Subsequently, the three greatest technology infrastructures were developed, these were INFINIT in 1999, and the execution of Public Key Infrastructure (PKI) based electronic data transfer and the Structured Financial Messaging System (SFMS) which enabled the expansion of secured payment system.

Six, one can note in this stage the advancement and infusion of newer delivery channels e.g. Internet banking, Mobile banking, various types of electronic post-paid and pre-paid cards. Besides that India became a member of the Basel Committee of Payment Settlement systems. The infusion of technology combined with advanced banking products and new delivery channels have had a positive influence on both customers and banks. The main benefits for customers are anytime-anywhere banking, ATM banking, Internet banking and Mobile banking, use of credit and debit cards. The significant benefits of technology advancement for banks are centralization of various banking functions and data e.g. centralization of information regarding customers, accounting process, transaction process, simple management information system (MIS) reporting and availability of real time information. Information Technology had an affirmative impact on Indian payment and settlement systems. With some revolutionary leads having been executed in banking area, the “electronification” of payment system has become the indicator of the start of new era towards more advancements. Electronics based payments that came into vogue increased efficiency, flexibility, traceability, convenience, speed and safety. The institution of the RTGS has led not only to compliance with international standards but also covered the way for reliable and secure fund transfers established on a real time basis.

Presently in Indian banking industry, most of the financial services and products are available online over banks’ official websites through the internet. Banks are focusing on enhancement of technology venture and expenditure intensely to maximize revenue, minimize cost and endure competitiveness (Benamati & Serva, 2007). Internet and Mobile Association of India (IAMAI, 2011) conducted a survey on users of internet and found that around 23% of internet users like to
choose internet banking as a medium to do their banking activities in India and nearly 53% users preferred the ATM. Before the arrival of ATMs, individuals were unaware of technological revolutions in the banking sector and related alternative delivery channel. ATMs grew into the main exposure for customers, as they facilitate a service to avoid long queues in banks in front of the cashiers. Through ATMs banks offered customers the flexibility of withdrawing money 24X7, anywhere.

2.5.6. Different Facets of Internet Banking

Internet banking is a novel service channel provided by banks and allows customers to do a number of banking activities in a secure mode through banks’ website. Each Bank has its own website that provides internet banking customers’ specific login ID as username and password, by login into that customers can perform various banking activities. Services offered a wide range are e.g. account status, transaction history, funds transfer, bill payment, online shopping, loan applications, cheque status enquiry, cheque book request, stop cheque request, e-bookings, credit card statements and payments, e-trading, e-tax payment etc. Table: 2.2 provides a glimpse of various services provided by banks though internet banking.

<table>
<thead>
<tr>
<th>Internet Banking services</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic bank products/Account Control</td>
<td>Funds Transfer</td>
</tr>
<tr>
<td></td>
<td>Account opening/ closing/management</td>
</tr>
<tr>
<td></td>
<td>Account Statement/ summary</td>
</tr>
<tr>
<td></td>
<td>Details of historical banking transactions</td>
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<tr>
<td></td>
<td>Demand Draft</td>
</tr>
<tr>
<td></td>
<td>E-cheques</td>
</tr>
<tr>
<td></td>
<td>Cheque book request</td>
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<tr>
<td></td>
<td>Cheque status enquiry</td>
</tr>
<tr>
<td></td>
<td>Stop cheque request</td>
</tr>
<tr>
<td></td>
<td>Standing orders, Direct debit</td>
</tr>
<tr>
<td></td>
<td>Debit card application</td>
</tr>
<tr>
<td>Credit products</td>
<td>Loan application</td>
</tr>
<tr>
<td></td>
<td>Loan limit</td>
</tr>
<tr>
<td></td>
<td>Loan Approval</td>
</tr>
<tr>
<td></td>
<td>Loan delivery</td>
</tr>
<tr>
<td></td>
<td>Credit card application</td>
</tr>
<tr>
<td></td>
<td>Credit card payments</td>
</tr>
<tr>
<td></td>
<td>Closure of loan account</td>
</tr>
</tbody>
</table>
### Investment products
- Deposit account opening & management
- Domestic / foreign equity investment
- Mutual funds / bonds investment
- Insurance investment

### Third Party services
- E-commerce payment/online shopping
- Tax payment on-line
- TDS enquiry
- e-TDR/ e-STDR/ e-RD
- i-collect
- Utilities bill payments
- e-Billing
- e-bookings

### Other
- Contact A/c manager
- Online financial advice
- Other financial products

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#### 2.5.6.1. Types of Internet Banking

There are three types of internet banking mentioned in different studies (www.rbidocs.rbi.org.in/rdocs/PublicationReport; Comptroller’s Handbook, 1999; Thulani et.al, 2009; Yibin, 2003, Diniz, 1998):  
(a) **Informational**: In informational internet banking mere information is made available related to internet banking services and products on a standalone server of a bank.  
(b) **Communicative**: This is an interactive type of internet banking wherein customers can interact with the bank mainly restricted to account inquiry, e-mail, static file updates and loan application.  
(c) **Transactional**: In this mode of e-banking, customers can pay bills, transfer funds to/from accounts and conduct other banking and financial activities online.

#### 2.5.6.2. Common Modes of Electronic Banking

Some of the common services available through e-banking are precisely discussed below:

**Table 2.3. Common Mode of e-Banking**

<table>
<thead>
<tr>
<th>Type of service</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATM (Automated Teller Machine)</td>
<td>ATM is a computerized electronic telecommunications device that authorizes bank customers to use a safe mode of communication to avail a few bank facilities e.g. access bank accounts, check account balances, get mini statement of transactions, cash withdrawals, cheque deposit, cash</td>
</tr>
</tbody>
</table>

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| **Phone Banking/Tele banking** | By using telephone a customer could perform many banking activities excluding cash withdrawals. By dialing the specified phone banking number provided by banks, the customer can access his account and by following the user-friendly menu, other banking activities can be performed through Interactive Voice Response System (IVRS). For security purpose Tele-banking PIN (TPIN) has been given by banks to the customer to punch in at the time of performing phone banking. A number of banking activities can be conducted by customers through phone banking e.g. check account balance, electronic bill payments, list of latest transactions, funds transfers etc. Acceptance of phone banking among customers has been not popular in comparison to other delivery channels. One of the vital reasons behind this could be problem and complications felt by customers in using an IVRS system and no options for cash withdrawing. |
| **Home Banking** | A practice to conduct banking transactions from home rather than visiting bank branch. It enables customers to handle their account through a pre-selected computer and place. There are two parts of a home banking system. The one is a bank computer program and another is a program in the customer’s computer, where the bank program is working as a communication server. This server collects requests from customers, authenticates their identity, accepts data from customers, verifies digital signatures, produces digital receipts and sends data to customers. The key features of home banking systems are ease, security, simplicity of use, |
extensive communication possibilities, reliable system, faithful networking, automated data transmission etc.

| PC (Personal Computer) banking | A form of banking that allows customers to execute bank transactions from a PC (personal computer). Banks facilitating a proprietary financial software program that permits the customer to perform financial transactions from his/her/their personal computer through a modem. |
| Mobile Banking | Mobile banking is the latest delivery channel of electronic banking provided by banks to customers that permit them to conduct various financial activities through a mobile device. In late nineties banks initiated offering mobile banking. During the early 2000’s recognition of mobile banking indicated good growth with the development of 3G mobile network that permitted accession of internet facility over the mobile phone. By using mobile internet bank apps, customers could execute banking transactions. Instructions related to banking operations are sent by banks on registered number of customers through Short Messaging Service (SMS). The main mobile banking facilities are: balance enquiry, funds transfers, latest transactions information, e-bill payments, mobile and other type of recharge, cheque status, cheque book request, stop payment instruction for cheque payments etc. Real time updates of transactions and mobile alerts are vital features of mobile banking. |

2.6. e-Banking Service Marketing

These days, bank customers are more demanding, investigative and financially literate (Vinita (2013). Bankers analysed customers’ perception and attitude as two important factors, as these have huge influence on long term profitability (Silvio, 2014). Furthermore, Customers’ satisfaction regarding banking products and services is marked as a significant factor that leads to the adoption of e-banking. Keeping the above points in mind, bankers are marketing their products and services in the present competitive banking environment. The focus of banks is more on customers’ need, convenience, service quality and satisfaction, which shows remarkable shift in bankers’ priority. Vinita (2013) stated that in banking industry, marketing strategy to communicate with customers, transparency and fairness in price, convenient distribution and simple accessibility of banking
services and products, bankers’ behavior towards customers, technological literacy of the customer, satisfaction and loyalty of the customer etc. play an important role in distinguishing their services from other market competitors.

In the service marketing inter alia e-banking, customers’ faith in services and products provided by any institution is mainly influenced by the need of the service and products, awareness about the service provider and how to use the service, effective marketing by service provider, convenience to avail and process the service and of course the quality of the service etc., all these factors lead to customers’ satisfaction, which motivates customers towards the adoption of particular services and products as depicted in figure 2.6.

**Figure 2.6. Customers’ Perceptual Process to Adopt Service**

The various concepts in the customer conceptual process given above are briefly explained hereunder:

**Customers’ perceptual process to adopt service**

1) **Customers’ Need:** Dixit (2004) stated that the most vital stage of success of any service or product is to identify customers' needs, which is the base for designing the product or service to fulfill customers' desire. Furthermore, he mentioned that trained and well-equipped staff with desired service can satisfy their customers easily.
2) **Awareness**: There are three aspects related to awareness. One, **customers’ awareness** - regarding their need, service provider, use and usefulness of service and products and knowledge about how to use the service etc. Two, **staff awareness** – regarding the need of customers, knowledge and training about how to process services demanded by customers, how to communicate with customers etc. Three, **the service provider** - awareness regarding customers’ need and expectations, about effective marketing of their product and services etc.

To create awareness of services and products among customers, effective service marketing e-mix plays an important role. The following para explains e-banking service marketing mix:

**E-Banking Service Marketing Mix**: Banking service marketing mix plays an important role in providing and satisfying the specific financial needs of customers. E-banking marketing deals with various aspects related to providing online banking services to customers and to fulfill their financial needs. In the technological era, the customer wants specific, personalized services. The e-banking service marketing mix is a combination of diverse components of services marketing, and is used to communicate with customers regarding their products and services. The marketing mix comprises 7Ps i.e. Product, Price, Place, Promotion, People, Process and Physical Evidence (Islam, 2015). The 7Ps of e-banking marketing leads to customers’ satisfaction and customers’ satisfaction motivates the adoption of internet banking (Vinita, 2013). The 7Ps are as follows (figure 2.7):
i.) Product: Product is the basic benefit that a customer is procuring while buying a product or availing of a service. Every business or industry has its core product, which is a vital component of the services offered and mainly focuses on two questions - “What do the customers get when they buy the product?” and “What business are we in”? (Lovelock *et al.*, 2006; 2004; 2002). According to Hauser and Clausing (1988), customers’ perception about diverse products or services are vastly influenced by their attributes. The quality of the core product or services immensely influences and occasionally may be a decisive factor for the use of the product by customers (Schneider & Bowen, 1995; Schneider, 2005).

‘Deposits’ and ‘advances’ are two basic core products of banking industry. Banks try to highlight their core banking products and services in the competitive market to fulfill customers’ perceived need. Banks adopt technology and provide value added core banking products and services to their customers. E-banking service (online payments, RTGS, EFT, ATM etc.), mobile banking, Direct Home Service (DTH) etc. are examples of value added services provided by banks to customers (Vinita, 2013).

ii.) Price: Price is all about “What is sacrificed or given up to gain a product” (Zeithaml, 1988). In the view of Biswas and Blair (1991) customers make out prices as high or low, based on their
experience and exposure to past price or competitive market prices. In the banking sector the
service charge and interest rates come under price and are being controlled by the RBI. The RBI
has allowed restricted deregulation to banks to show in a better light their services based on distinct
interest rates. Dutta & Dutta (2009) stated, in the context of Indian banking services evaluation,
that there is no significant variation in the price of bank services because of regulation by RBI.
Thus, the key differentiator for banking service evaluation in India would be dimensions of Service
Quality (ServQual), systematized and convenient service, reasonable charge with effective
campaign of services and social responsibility (Dutta & Dutta, 2009; Vinita, 2013). The price
compatibility with perceived price by customers, influences the buying tendency of customers. E-
banking service quality with lesser service charge and effective marketing are differentiators of
service provider in modern banking services in India.

iii.) Place
In the context of e-banking services, place reflects, providing online banking service conveniently
at the right time without any error. As competition increases in the banking sector, each bank tries
hard to fulfill the financial need of customers according to their desire, expectation and
convenience to gain their faith. For instance, internet banking customers are giving priority to
perceive convenience associated with service purchase before taking a decision to buy. If he/she
feels any complexity associated with a service purchase, he/she selects face to face banking.
Therefore it is important for the online service provider to make the service simpler and easily
accessible to attract customers. According to Berry et.al, (2002), convenience is an important
enabling factor of banking services channel choice for most of the consumers. Some of the basic
expectations of bank customer may be related to convenient propinquity of ATM or bank branch
so that they can avail the facility 24X7 hrs., accessibility of bank account or related activity
through electronic banking conveniently according to their preference of time and place etc.
Banking services are provided by banks in diverse ways to make them more flexible to use e.g.
internet, mobile, voice response system, ATM, POS terminals, call center, visit to customer's place
etc. have not only changed the banking service delivery modes drastically but also improved the
customer service experience and life style of customers.
Promotion

Promotion is all about communication of service provider with customers. In the context of banking, promotion helps the bankers to publicize their offerings (general offerings, festival offerings, special offerings etc.), products (basic products, premium products, new products etc.) and services (traditional services, online services, other innovative services- bank at home, mobile ATMs, etc.). Deprived of effective marketing communications, customers may never be aware of service provider existence, of their offers and the way to avail of the service advantageously. The developing competitive banking market forces bankers to use effective promotional and marketing communication tools to differentiate their products and services from others (Vinita, 2013).

Marketing communication is one of the best ways to communicate with customers in the context of online banking services differentiation and their compatibility with customers’ life style and need (Jauhari & Dutta 2009). It helps not only differentiating online services from traditional services but also helps to differentiate the services offered by other available competitors in the market. Effective promotion of product and services plays an important role in their success or failure. A vibrant focus on the interaction between customers and promotion is an inevitable part of bank marketing.

Almost all the banks provide e-banking services but they promote their products and services differently. They also use different mediums to advertise their services like - print medium (magazine-paper-pamphlets-posters- banners- hording etc.); electronic medium and web promotion (TV- Radio- Mobile, Internet web sites, social network sites or viral marketing or e-marketing etc.), social promotion through public awareness programmes (direct interaction with the public about products and services) etc. For example, the State Bank of India (SBI), promoted their products and services as “No Cash, No worry” (mobile wallet) , “Life banaye assaan” (internet banking), “No Queue Banking- Green initiative” (handheld machines- green channel counters) whereas Syndicate Bank promotes them as “One Account with Multi-Benefits”, “Cash nahi to kya hum hai na” “Banking Convenience at Your Fingertips” (for SMS banking, internet banking, mobile banking etc.) and other banks manage to promote their services in their own way. An effective marketing of product and services can cover and influence extensive number of customers and can be helpful for the success of the products and services. (Rahman, 2013).
v.) People

People are an important element among 7Ps of service marketing. Customers and the service provider together contribute in service delivery and both are accountable for effective service delivery. In the background of e-banking services, customer’s needs, demands and inputs are essential for producing services e.g. account balance enquiry, access account history, opening of account, fund transfer, online deposits, cash withdrawals, processing payments etc. Therefore customers’ participation is measured as moderate in context of e-banking. If customers consider that they are also partially responsible for service processing failure and success, they will be more cognizant and less dissatisfied with the service provider (Bitner, 1990). If customers provide all the necessary information to bankers which is essential for producing services demanded by customers then services may be produced without further delay. Thus, customer plays a significant role in the banking sector. Customers’ education regarding their participation and role in making e-banking services successful is very important. According to Dash et.al, (2007), bankers’ behavior and positive response helps in gaining customers’ faith and also differentiating banking services from others (Vinita, 2013).

vi.) Process

Process is all about how services are being delivered by service providers to customers. In e-banking settings, the process (used by service provider to deliver services) plays an important role. The process also influences customers’ faith and satisfaction, as customers are present throughout the service delivery. Customers’ expectation regarding service varieties and service delivery channels has increased vastly. They wish to use speedy, error free, convenient and self-serviced banking (Dabholkar & Bagozzi, 2002).

Technology has gifted diverse ways to customers to perform their banking activities. The modern ways of technology have enabled banking modes assist bankers to improve their service process in diverse manners as per customer expectation (Bitner et.al, 2000). Technology has empowered banking services to provide reliable, constant and quality service to customers (Lenka et.al, 2009; Vinita, 2013). Customer wants multi-channel and multi-purpose banking that is another aspect regarding service delivery process. Banks are providing such facilities by introducing diverse delivery channels and ways to use banking services. Different counters e.g. person less counters (handheld machines) or self-serviced counters, ATMs, POS terminals, online service facilities,
mobile banking, SMS banking and most recently humanoid interactive counters by a few banks etc.

Different customer touch points are developed by banks for service delivery process as per customers’ convenience that is depicted in Figure 2.8

**Figure 2.8. Different Customer Touch Points for Service Delivery Process**

vii.) Physical Evidence

Physical evidence is another aspect of service marketing that influence customers’ behavior, faith and their buying decisions (Burgers *et.al.*, 2000). Physical evidence is all about physical facilities and their availability, equipment, communication material and behaviour of staffs etc. (Zeithaml *et.al.*, 2009; Lenka *et.al.*, 2009). One can say that it is an environment in which the services and products are delivered to customers. It is a setting under which the service provider and the customer interact. It may consist of any tangible or intangible (in case of electronic services) commodities that assist enactment and communication of the service to customer. Customers can see or experience physical evidence, when they use a service and perceive the quality of service.

Physical evidence of banks could include branch premises, delivery of the banking service itself, employees’ behaviour, the cheque book, the pass book, information boards and in case of e-
banking physical evidence could be signage, billboards, hoardings, punch lines, web site information and simplicity, e-passbook, e-statement and e-mails in the form of pdf, different alerts through e-mail or SMS after each and every activity etc. Bitner (1992) stated that physical evidence supports to differentiate a service provider from its rivals.

3) **Convenience**

Convenience to use and process the service according to expectation, is a vital factor towards decision behaviour of customer to buy a product or use a service. Convenience is all about knowledge to use and usability, simplicity to use, availability and accessibility and affordability.

4) **Service Quality**

Service quality, an aspect that leads to customer satisfaction about service is obviously in the service provider (Gupta & Bansal, 2012). It also distinguishes the service provider in the eyes of customers. Today, bank customers are more knowledgeable, investigative and financially literate and so they compare products and service quality critically. Banks are using various service quality dimensions in order to fulfill customers demand and to hold the market (Silvio, 2014). In the context of e-service quality, Zeithmal *et.al*, (2000), mentioned that both pre- and post- web site services play a vital role. It can be assumed as the evaluation of the efficiency and effectiveness of the online buying process and delivery process in the virtual marketplace. Santos (2003) defined e-service quality as overall perception, evaluation and judgment of customer regarding excellence of e-service delivery. Gronroos (1990) defines the service quality as the outcome of an evaluation performed by a customer by comparing his expectations with the service he/she has received.

5) **Customer Satisfaction and Adoption of Service**

The quality of service leads to customers’ satisfaction and customers’ satisfaction results in customers’ adoption (Mohammad *et.al*, 2012; Ala’Eddin *et.al*, 2011). Banks are trying to satisfy customers' financial needs and wants according to their expectation. Customers decide to adopt or reject the service or product when he/she feels satisfied or dissatisfied on the basis of the perceived experience.

2.7. **Financial Innovation and Recent Trends in Banking Sector**

In modern days of banking, banks are quickly responding to the changes. The extension of the new technology and related trends in banking industry has re-engineered and re-defined the banking