

Role of E-Business in Banking Sector in India

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Abstract

The liberalization and globalization necessitated the need for bringing measures to cut down cost, to increase efficiency and to provide services to the customers in all the sectors of the economy. The best tool to provide this was e-initiative and this led to the development of various E-Business models. Factors for a successful e-Business venture have been identified with an illustrative example of banking sector. The technique used for banking sector can also be extended to other sectors such as education. ICICI bank which was the first bank in India to launch website in 1996 and internet banking in 1997 also led the way by being the first bank in India to launch on line bill payment in 1999. In the process it also became the second largest bank in the country after SBI. To study the sweeping changes brought about by e-initiative measures in the banking sector some banks like SBI and BOB were chosen from public sector and like ICICI and HDFC from private sector. The performance of the banking sector has improved profitability and customer satisfaction and many other parameters show a market improvement. In the new millennium the internet based way of doing business has certainly changed. It has changed the shape of whole set of industries and market and has already had a great impact on consumers and is all set to have a very exciting future. E-business can be described as the process of buying and selling or exchanging of products, services and information generating demand for them through marketing and advertising, servicing customers and conducting electronic transactions within an organisation via computer networks including the internet.

In banking communication and records keeping are prime activities and so the application of e-business should be both natural and useful. Advances in IT and data processing are rapidly changing the methods of communication and transaction processing procedures used by banks. Banks that are able to make use of this technology are able to provide better services to customers at a reduced cost. Banks adopted customer relationship management tools to improve their customer retention and to help up-selling and cross selling new product combinations and services such as ATM, Internet use etc. Many of the better bank customers appear to use website and these could be important for the success of banks. In this paper the banking sector has been chosen for study because of its unique potential to be a very large user of e-Business.

Keywords: *Globalization, E-business, Banking Sector, Communication, Transaction.*

In the world of e-business the rapid growth of the market and fierce competition between the increasing number of participants add up to new advances every day leading to short development cycles. The limited opening of Indian economy in 1990's brought in its wake forces of market competition in small measure in the economy and all sectors including Banking sector

were exposed to such forces for the first time. In banking communication and records keeping are prime activities and hence the application of e-business should be natural and useful. During the last decade, the focus of many banks on revenue growth resulted in major new e-initiative investments the largest involving services and market tools for customer information management and support. Banks have traditionally been organized around product lines such as deposit accounts and loans. Co-ordination among departments was loose, and customer information didn't flow easily across the organization. To remedy this problem, banks attempted to create a single customer interface, which forced them to integrate their databases and e-initiative system. Once this was accomplished, banks adopted customer relationship management tools to improve their customer retention and to help up-selling and cross selling. All this required significant investments in personal computers as well as the integration of complex system. New product combinations and services such as Automated Teller Machines (ATM), Internet use, etc. were made available. ATMs represent a technology that replaces labour for the bank and provides convenience to the customer. The level of use of ATMs is indicative of a bank's commitment to the use of technology. According to a study by Financial Institutions Consulting, Small business customers who use electronic banking have higher than average demand deposit account and loan balance, better customer base penetration and lower than average attrition rates. This indicates that many of the better bank customers appear to use websites and that websites could be important to bank success. E-mail and internet use can also help banks to keep in contact with their customers as well as obtain and disseminate information regarding products, services and informational topics. The use of internet helps banks to reduce processing and labour costs, allows new distribution channels and more cost effective customer stratification and personalized pricing, permits unbundling of financial products, and lowers barriers to entry. Moreover, e-initiative can increase a bank's ability to reduce risks. Many of the leading banks in the country have taken advantage of the availability of these technological tools and invested heavily in this area. The ultimate impact of e-initiative depends on the type of services the bank provides. If banks provide transaction services, e-initiative is expected to improve productivity, increase efficiency, provide scale economies, and reduce the cost structures. If banks provide risk management services, e-initiative will tend to reduce the risk of imperfect information. The Internet has already had a seismic effect on the way the banking industry conducts its business. It has permanently altered the way customers perceive value, how value is delivered and how it can produce profitability.

Products and services of Indian banking have been traditionally around mass banking products. Most common deposit products being Savings Bank, Current Account, Term Deposit Account and Lending products being Cash Credit and Term Loans, Further remittance products include issuance of Drafts, Telegraphic Transfers, Balance Cheque and Internal Transfer of Funds. The tremendous advances in technology and aggressive infusion of information technology have brought in a paradigm shift in banking operations. And the entire banking product structure has undergone a change. IT revolution has made it possible to provide ease and flexibility in operations to customers. Besides that the technology in fusion allows banks to improve internal processes, allowing them to cut cost, enabling cross sell and building global delivery platform, enhancing customer convenience coupled with lower delivery cost platform e.g. reduced operational costs for the banks. This helps in acquiring new customers and retaining existing ones. Alternate Banking method is faster, easier and more convenient in enhancing customer satisfactions and building loyalty through, Any time, Any where banking and real time update of information. Many services are rendered by banks e.g. bill payment services, customer order

checks and demand drafts, open an account online, ATM, depository services, EFT and checking your accounts online.

Customer Relationship

New age channels like ATM and net banking have opened up a demographic divide between the young who frequent tech channels more than the old. The Internet banking is targeted at the customers who need anywhere, anytime, anyway banking. Internet banking has prompted the banks to embrace technology to meet the increasing customer expectation. Besides that the net banking also allows banks to reach out to a larger customer base from a low branch network. ICICI bank virtually provides services to many rural areas in India. Nobody denies that India is under serviced. A country of 1.25 billion people has only about 285 million account holders. But if one excludes those with multiple accounts, especially in metropolitan and urban bank branches, the number would drastically come down. These small towns represent a vast untapped potential market, with relative ease of access.

Instead of treating entire India as a homogeneous market, banks are going for a phased approach and concentrating on brand building. Banks will, therefore need to plan for all this and learn basic survival skills. Globalization in the context of financial markets does not mean only acquiring the ability to protect their turfs when foreign banks invade India but also going abroad and competing in other markets. Three parameters are of key importance while defining customer segments.

- Accessibility
- Awareness
- Affordability

Today the customer is exposed to both the information and choice overload. People now have a wide variety of options to choose from, right from insurance policies to bank accounts. Branding also plays an important part in building customer trust and loyalty.

The relevance of bank products and services in future will be decided not on their emotional imagery but perceived value. In this context, introducing new products and services variety entails creating need based customer value propositions, prioritizing target market.

Tests

This test looked into broad aspects of e-business, content usage and pricing. To study the sweeping changes brought about by e-initiative measures in the banking sector six banks three from public sector and three from private sector were chosen. On the basis of data collected from different websites of banks operating in India a rating scale to evaluate technical and business criteria was developed. The technical and business criteria with their dimensions are listed below :-

TECHNICAL CRITERIA

Ease of Use

- Is it easy to search and to find help and contact information?
- Is it easy to find product or service information?
- Is it easy to conduct transactions?

Security

- Are they using security methods (such as SSL)?
- Do they have security?

Technologies Used

- Do they use Internet technologies to enhance their site?
- Do they use flash or animation?

Design and Layout

- How is the overall look and feel of the site?
- Is the colour scheme consistent?
- Are there any broken links?

BUSINESS CRITERIA**Services**

- Can the customers manage their accounts without assistance?
- Do they have bill payment services or online banking?
- Can a customer search for branches or ATMs?
- Can a customer order cheque or open an account online?

Educational Services

- Is there any advice or article for financial information?
- Do they provide calculators and tools?

Strategy

- What is the web site's level of stickiness?
- How are they trying to engage and keep their customers?

Fees

- Are their fees competitive?
- Do they offer any free services?

Table for Test

<i>Site</i>	<i>Technical Criteria</i>				<i>Business Criteria</i>				<i>Total Score</i>	<i>Average Rating</i>
	1	2	3	4	1	2	3	4		
SBI	6	4	6	6	4	6	6	4	42	4.63
BOB	4	4	5	6	3	5	4	6	37	4.50
PNB	3	2	5	6	3	4	4	5	32	3.5
ICICI Bank	6	6	6	6	4	6	6	5	45	4.25
HDFC Bank	6	5	6	5	6	6	5	5	44	3.63
UTI Bank	6	5	5	6	4	4	3	3	36	4.48

From the above table we find that ICICI Bank is the best website among those rated. Although ICICI Bank was average in the types of services it offered, its ranking was top in usability, design features security technologies used, educational services and strategy. This indicates that e-business is a vital part of its overall business strategy. The six banks view the Internet as a supplementary distribution channel to the traditional distribution network. A key challenge for the banks is to find what works uniquely on the Internet and to blend with the advantages of brick and mortar to form the clicks and mortars. Although the banks are seeing an increasing number of customers access financial services online, over the phone and through ATMs, branches will continue to be an important distribution and sales channel. With the ever changing patterns in customer demand, banks have to continuously monitor and change the branch layout or to relocate and spread their products and services among their various distribution channels. ICICI Bank is well positioned to increase its Internet banking market share in India because of its progressive approach to using the Internet. SBI uses the Internet as a gateway to new customers and lower pricing because it reduces the problem of capacity constraint and can tap into a broader market segment. Some major banks are still struggling with legacy issues such as upgrading their hardware system. This has created a window of opportunity for ICICI Bank.

Conclusion

The central financial characteristic of internet banking model has reduced overhead spending. By eliminating their costs at physical branch locations, the banks can substantially reduce expenses on rent, on upkeep and maintenance, and most importantly, on the labour needed to run branch locations. Banks can use these savings to increase the per-unit profit on their existing business, to increase their market share, to attract customers by paying higher interest rates on deposits or charging lower interest rates on loans. Customers benefits not only from increased convenience but also because these banks can use of some of their overhead cost savings to pay higher interest rates which is still not the case as banks think of internet banking only as a additional source of reaching and providing customer service.

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