



Research Paper

# Role of E-Commerce in Indian Banking Industry: Issues and Concern

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## Abstract

*E-commerce stands for electronic commerce. E-commerce is improving standard among the business community in worlds, about the opportunities offered by E-commerce. E-commerce as part of the information technology revolution became widely used in the world trade in general and Indian economy in particular. With advancements in technology, there have been many changes has been occupied. Indian banks have been playing an essential role with the e-commerce. Present scenario Banks are facing many issues and challenges by the e-commerce. In the backdrop of all these developments the present paper makes an attempt to: highlight the challenges of e-commerce in Indian banks, and to understand the issues of e-commerce in Indian banks.*

*The paper also highlights the challenges faced by Indian banks in adoption of technology and recommendations are made to tackle these challenges. The paper concludes that in years to come e-banking will not be acceptable mode of banking but preferred mode of banking.*

**Keywords:** *Electronic Commerce, Challenges, Business, E-Banking, Issues, Economy, Information Technology.*

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## I. INTRODUCTION

In the emerging global economy, e-commerce and e-business have increasingly become a necessary component of business strategy and a strong catalyst for economic development. The integration of information and communications technology (ICT) in business has revolutionized relationships within organizations and those between and among organizations and individuals. Specifically, the use of ICT in business has enhanced productivity, encouraged greater customer participation, and enabled mass customization, besides reducing costs.

With developments in the Internet and Web-based technologies, distinctions between traditional markets and the global electronic marketplace-such as business capital size, among others-are gradually being narrowed down. The name of the game is strategic positioning, the ability of a company to determine emerging opportunities and utilize the necessary human capital skills (such as intellectual resources) to make the most of these opportunities through an e-business strategy that is simple, workable and practicable within the context of a global information milieu and new economic environment. With its effect of leveling the playing field, e-commerce coupled with the appropriate strategy and policy approach enables small and medium scale enterprises to compete with large and capital-rich businesses. On another plane, developing countries are given increased access to the global marketplace, where they compete with and complement the more developed economies. Most, if not all, developing countries are already participating in e-commerce, either as sellers or buyers. However, to facilitate e-commerce growth in these countries, the relatively underdeveloped information infrastructure must be improved.

Electronic commerce is sharing business information, maintaining business relationships and conducting business transactions by means of telecommunications network. Tremendous progress in the field of information technology has reduced the world to a global village and it has caused unprecedented change in the banking industry.

Banks today operate in a highly globalized, liberalized, privatized and a competitive Environment. In order to survive in this environment banks have to use IT. IT has introduced new business paradigm. It is increasingly playing a significant role in improving the services in the banking industry. Indian banking industry has witnessed a tremendous developments due to sweeping changes that are taking place in the information technology.

Internet banking changed both the banking industry as well as banks' services to its customers. 'Anywhere banking' came to be recognized as an opportunity also for differentiated and competitive services.

Apart from branch banking in the brick and mortar mode, click and order channels like internet banking, ATMs, tele-banking and mobile banking are now in vogue. Customers can view the accounts, get account statements, transfer funds, purchase drafts by just making a few key punches. Availability of ATMs and plastic cards to a large extent make it necessary for customers going to branch premises. Smart Cards with an embedded micro-processor chip have brought about revolutionary change. Electronic Data interchange (EDI) is another development that has made its impact felt in the banking arena. Transaction costs have fallen down, productivity has tremendously improved, new banking products and services have entered the market.

### **TYPES OF E-COMMERCE**

Classifying Ecommerce Business Based on Nature of Participants. The two most common participants in ecommerce are businesses and consumers. Based on this we can come up with four primary ecommerce types:

- Business to Business Ecommerce (B2B Ecommerce)

In this type of ecommerce, both participants are businesses. As a result, the volume and value of B2B ecommerce can be huge. An example of business to business ecommerce could be a manufacturer of gadgets sourcing components online.

- Business to Consumer Ecommerce (B2C Ecommerce)

When we hear the term ecommerce, most people think of B2C ecommerce. That is why a name like Amazon.com pops up in most discussions about ecommerce. Elimination of the need for physical stores is the biggest rationale for business to consumer ecommerce. But the complexity and cost of logistics can be a barrier to B2C ecommerce growth.

- Consumer to Business Ecommerce (C2B Ecommerce)

On the face of it, C2B ecommerce seems lop-sided. But online commerce has empowered consumers to originate requirements that businesses fulfill. An example of this could be a job board where a consumer places her requirements and multiple companies bid for winning the project. Another example would be a consumer posting his requirements of a holiday package, and various tour operators making offers.

- Consumer to Consumer Ecommerce (C2C Ecommerce)

The moment you think of C2C ecommerce eBay.com comes to mind. That is because it is the most popular platform that enables consumers to sell to other consumers. Since eBay.com is a business, this form of ecommerce could also be called C2B2C ecommerce (consumer to business to consumer ecommerce).

- M-commerce (mobile commerce)

M-commerce (mobile commerce) is the buying and selling of goods and services through wireless technology—i.e., handheld devices such as cellular telephones and personal digital assistants (PDAs). Japan is seen as a global leader in m-commerce. As content delivery over wireless devices becomes faster, more secure, and scalable, some believe that m-commerce will surpass wire line e-commerce as the method of choice for digital commerce transactions. This may well be true for the AsiaPacific where there are more mobile phone users than there are Internet users. Industries affected by m-commerce include:

- Financial services, including mobile banking (when customers use their handheld devices to access their accounts and pay their bills), as well as brokerage services (in which stock quotes can be displayed and trading conducted from the same handheld device);
- Telecommunications, in which service changes, bill payment and account reviews can all be conducted from the same handheld device;
- Service/retail, as consumers are given the ability to place and pay for orders on-the-fly; and
- Information services, which include the delivery of entertainment, financial news, sports figures and traffic updates to a single mobile device.

### **OBJECTIVE OF STUDY**

- To highlight the challenges of e-commerce in Indian banks.
- To understand the issues of e-commerce in Indian banks

## **II. LITERATURE REVIEW**

Centeno (2004) argues that speed, the convenience of remote access, 7/24 availability and price incentives are the main motivation factors for the consumers to use internet banking. Durkin, et. al. (2008) notes that the simplicity of the products offered via internet banking facilitates the adoption of internet banking by consumers. Calisir and Gumussoy(2008) compare the consumer perception of internet banking and other banking channels and report that internet banking, ATM and phone banking substitute each other. Guerrero, et.al. (2007) examine the usage of internet banking by Europeans and their results indicate that ownership of diverse financial products and services, attitude towards finances and trust in the internet as a banking channel influence clients' usage of internet banking.

## **E-BANKING**

E-banking is a generic term making use of electronic channels through telephone, mobile phones, internet etc. for delivery of banking services and products. The concept and scope of ebanking is still in the transitional stage. E-banking has broken the barriers of branch banking. It increases efficiency in the sphere of effective payment and accounting system thereby enhancing the pace of delivery of banking services considerably. It allows customers to access banking services electronically such as to pay bills, transfer funds, view accounts or to obtain any banking information and advice. E-banking also facilitates new relationships with customers, regulatory authorities, suppliers and banking partners with digital-age tools. For example, customers and bank relationships will become more personalized, resulting in new modes of transaction processing and service delivery.

## **E-COMMERCE IN BANKING**

E-banking (Internet banking) is an e-commerce application which allows the customers to perform any of the virtual banking functions, financial functions online in a protected and secure manner. It involves using the of internet for delivery of banking products and services.

ICICI was the first bank to champion its usage and introduced internet banking to its customers in 1996. With lower internet costs and increased awareness about electronic media, online banking established itself only in 1999. Other banks followed suit, including HDFC, Citibank, IndusInd and the now redundant Times Bank.

The Government of India enacted the IT Act, 2000 with effect from October 17, 2000 which provided legal recognition to electronic transactions and other means of electronic commerce. The Reserve Bank is monitoring and reviewing the legal and other requirements of e-banking on a continuous basis to ensure that e-banking would develop on sound lines and e-banking related challenges would not pose a threat to financial stability.

## **E-BANKING INCLUDES:**

- INTERNET BANKING
- CHEQUE TRUNCATION PAYMENT SYSTEM
- ELECTONIC FUNDS TRANSFER SYSTEM
- INVESTMENT THROUGH INTERNET BANKING
- AUTOMATED TELLER MACHINES
- DEBIT CARDS
- CREDIT CARDS
- QUERING THE ACCOUNT BALANCE
- BILL PAYMENT SERVICE
- APPLYING FOR/CLAIMING INSURANCE
- SMART CARDS
- MOBILE BANKING

## **BENEFITS OF E-BANKING**

E-banking helps us in overcoming the drawbacks of manual system, as computers are capable of storing, analyzing, consolidating, searching and presenting the data as per the user requirements with lot of speed and accuracy. Number of benefits accrues to the various parties with the development of e-banking.

### **To the Banks**

- E-banking services help in increasing profits.
- E-banking provides competitive advantage with boundary less network to the banks.
- Due to e-banking banks carry on business less with paper money and more with plastic money; have online transfer of funds, thus economizing on the cost of storage of huge stocks of currency notes and coins.
- By connecting with ATM and PO terminals, risk of cash overdraw can be eliminated in case of ATM credit and debit cards.
- E-banking websites can act as a revenue earner through its promotional activities.
- Customers can avail e-banking facility from anywhere, therefore saving the need not to invest more on building infrastructures.
- Websites that offer financial convergence for the customer will create a more involved banking customer who will more frequently utilize the banking websites.

### **To the Customers**

- Reduced costs in accessing and using the banking services.
- Increased comfort and timesaving - transactions can be made 24 hours a day, without requiring the physical interaction with the bank.
- Quick and continuous access to information- Corporations will have easier access to information as, they can check on multiple accounts at the click of a button.
- Better cash management- E-banking facilities speed up cash cycle and increases efficiency of business processes as large variety of cash management instruments are available on Internet sites of Estonian banks.
- Reduced costs- This is in terms of the cost of availing and using the various banking products and services.
- Convenience- All the banking transactions can be performed from the comfort of the home or office or from the place a customer wants to.
- Speed - The response of the medium is very fast; therefore customers can actually wait till the last minute before concluding a fund transfer.
- Funds management- Customers can download their history of different accounts and do a “what-if” analysis on their own PC before affecting any transaction on the web. This will lead to better funds management.

### **To the Merchants, Traders**

- It ensures assured quick payment and settlement to the various transactions made by the traders.
- It provides a variety of services to the businessmen on par with the international standards with low transaction cost.
- Cost and risk problems involved in handling cash which are very high in business transactions are avoided.
- It leads to the growth of global and local clientele base with the development of e-Banking.
- Other benefits include improved image, improved customer service eliminating paper work, reduced waiting costs and enhanced flexibility.

Broadly, all users emphasized 3 major attributes they considered important for their online banking experience: Simplicity, Security, Service.

### **Simplicity**

Users and non-users expect online banking to be further simplified than what they see today. Some expectations:

- Better link label clarity suggestive of action required
- Better navigation that highlights and presents relevant information in context and at the right time needed
- Better content partitioning according to popularity and priority of action

### **Security**

Non-transactors and non-users reported that they did not transact online because:

- concerns about the security of their banking information is not fully addressed
- technical glitches and unreliability create confusion and anxiety
- additional security gateways were absent.

### **Service**

Almost all transactors demanded better service. They wanted:

- More services to be available online
- Better and faster customer support channels like online chat to solve banking Hurdles
- Innovative and intuitive interface.

## **CHALLENGES OF E-COMMERCE IN INDIAN BANKS**

The e-commerce industry in India is growing at a remarkable pace due to high penetration of internet and sophisticated electronic devices. However, the recent growth rate of e-commerce in India is far lagging behind than other developed countries. There are many big problems and challenged on the way of an online merchant. Factors like safety and security of online money transaction being the biggest problem along with others have curb the smooth expansion of the online industry in the country.

Although, major portion of e-business sectors have affected by the below mentioned challenges but still there are few online giants like Makemytrip.com, flipkart.com, Snapdeal.com who have overcome the challenges and represents the perfect growth trends of e-commerce in India.



- **Poor Knowledge and Awareness:** When it comes to ratio of internet consumers, scenario is not so admirable one. Majority of Indian rural population are unaware of internet and its uses. Surprisingly, most of internet savvies or urban population are also suffering from poor knowledge on online business and its functionalities. Very few are aware of the online corruption and fraud and thus darkness still exists. A reliable survey reveals that 50% of Indian online users are unaware of the solution of online security
- **Online Transaction:** Most of Indian customers do not possess plastic money, credit card, debit card and net banking system, which is one of the prime reasons to curtail the growth of ecommerce. Nevertheless, in recent years, some of the nationalized banks have started to issue debit cards to all its account holders. This is undoubtedly a positive sign for Indian online entrepreneurs.
- **Cash on Delivery:** Cash on Delivery (COD) has evolved out of less penetration of credit card in India. Most of Indian E-commerce companies are offering COD as one of mode of payment for the buyers. 30%-50% of buyers are also taking advantage of this mode of payment while making purchase of any product and service over internet. COD has been introduced to counter the payment security issues of online transaction, but this mode has been proving to be loss and expensive to the companies. It is seen that majority of the customers denied to make the payment at the time of delivery of the product. Hence, companies tend to lose the sale along with product transit fees. In order to curb the problem of COD, online companies should take some judicial steps; otherwise basic logic behind the ecommerce business will be at risk.
- **Online Security:** In case of start up and small business, Business owners are ignoring the importance of authentic software due to budget constraints. They are even failing to take the initial steps to secure and protect their online business through installation of authentic protection services like antivirus and firewall protection, which indeed a crucial step for successful online business players. In India, maximum number of business entrepreneurs used unauthorized software in their server, which usually does not come with upgraded online security. Such pirated software leaves room for virus, malwares and Trojan attacks and it is highly risky task to make online transactions in the systems, which may disclose or leak sensitive details of credit cards and online banking of the users. These kinds of droopiness should be banned in Indian ecommerce sectors. Affiliation to SSL certificate should be imposed as a mandatory action for every owner.
- **Logistics and Shipment Services:** In India, logistics and courier services required lots of improvement. While, perfect and strong logistics service is one of the key reasons behind the success of any online company, India is lagging far behind in this sector as most of the town and small villages are still not covered under serviceable area of many of the courier and logistic companies. Ecommerce is hampered in a big way owing to the limited services offered by the courier service companies.
- **Tax Structure:** Tax rate system of Indian market is another factor for lesser growth rate of e-commerce in India in comparison to other developed countries like USA and UK. In those countries, tax rate is uniform for all sectors whereas tax structure of India varies from sector to sector. This factor creates accounting problems for the Indian online business companies.
- **Fear factor:** Fear of making online payment is a universal psychological factor of Indian customers. With the spread of knowledge on online transactions and its reliability, some percentages of customers have overlooked this fear and they are fearlessly engaging themselves in online shopping. But still, majority of

customers are not aware of online transactions and its security. They often reluctant to disclose their credit card and bank details and preferred to stay away from online world of shopping.

- ‘Touch and Feel’ factors: Indian customers are more comfortable in buying products physically. They tend to choose the product by touching the product directly. Thereby, Indian buyers are more inclined to do ticketing and booking online in Travel sectors, books and electronics. Companies dealing with products like apparel, handicrafts, jewellery have to face challenges to sell their products as the buyers want to see and touch before they buy these stuffs.

### **CHALLENGES OF E- BANKING**

The concept of e- banking cannot work unless and until have a centralized body of of institution, which can formulate guidelines, regulate, and monitor effectively the functioning of internet banking. The most important requirement for smooth working of internet banking is the use of best security methods. This presupposes the existence of best technological devices and methods to protect electronic banking transactions. The Reserve Bank Of India constituted a working group on Internet banking which focused on three major areas of E-banking:

1. **Technology and security issue:** This issue is of prime importance as internet banking rests upon it. The RBI realizing the importance of the issue has issue the following guidelines:

- I. Banks should have a security policy duly approved.
- II. Banks should introduce logical access controls to data, systems, application software, utilities, telecommunications lines, system software etc. logical access controls techniques may include user-ids, passwords, smart cards, or other bio-metric technologies.
- III. All applications of banks should have proper record all computer accesses including messages received should be logged.

2. **Legal issues:**

- I. This is an obligation by banks not only to verify the identity but also to make enquiries about integrity and reputation of the prospective customers.
- II. The consumer protection act , 1986 defines the rights of consumers in india and is applicable to banking services as well.
- III. In internet banking scenario there is very little scope for the banks to act on stop payment instructions from the customers. Hence banks should clearly notify to the customers the timeframe and the circumstances in which any stop – payment instructions could be accepted.

3. **Regulatory and supervisory issues:** The banks operating in real space are regulated and supervised by the RBI on regular basis and is extended to internet banking as well.

- I. Only such banks which are licensed and supervised in India and have physical presence in India will be permitted to offer internet banking products to residents of india. Thus , both banks and virtual banks incorporated outside the country and having no physical presence in India will not be permitted for internet banking.
- II. The products should be restricted to account holders only and should not be offered in other jurisdictions.

### **III. RECOMMENDATIONS**

I. E-banks should create awareness among people about e-banking products and services. Customers should be made literate about the use of e-banking products and services.

II. Special arrangements should be made by banks to ensure full security of customer funds. Technical defaults should be avoided by employing well trained and expert technicians in field of computers, so that loss of data can be avoided.

III. Employees of banks should be given special technical training for the use of e-banking so that they can further encourage customers to use the same.

IV. Seminars and workshops should be organised on the healthy usage of e-banking especially for those who are ATM or computer illiterate.

V. E-banking services should be customised on basis of age, gender, occupation etc so that needs and requirements of people are met accordingly.

VI. Government should make huge investments for building the infrastructure.

#### **IV. CONCLUSIONS**

The study reveals that there is not much awareness in Indian customers regarding use of e-banking services. But, the guidance and persuasion by bankers does promote the use of such services amongst the customers. In order to make e-Banking more popular, banks must separate their customers based on demographic priority (i.e., age, gender, occupation etc.) and customize e-Banking services as per their needs and requirements. Banks are making sincere efforts to popularize the e-banking services and products. Younger generation is beginning to see the convenience and benefits if e-banking. In years to come, e-banking will not only be acceptable mode of banking but will be preferred mode of banking.

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