

E-BANKING: A MODE OF VALUE CREATION IN INDIAN BANKING SECTOR

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Abstract

The role of technological innovations on efficiency and cost reductions in the banking sector is paramount to the successful and profitable service delivery in the sector. E-banking is one of the emerging trends in the Indian banking and is playing a unique role in improving the services and increasing value creation in Indian banking sector. E-banking has enabled the banks to handle the payments electronically and inter-bank settlement faster and in large volumes. The present study highlights the growth of e-banking in India. The findings depict that e-banking in India has grown at a fast pace from the year 2009-10 to 2012-13, which has resulted value creation in banking sector in India. The study suggested that in order to enhance value creation in Indian banking sector, computerisation, IT enabled services in banking industry in India should be further promoted.

Keywords: Value Creation, Information technology, E-banking, ATMs, Credit cards, Debit cards.

1.0 Introduction

The role of technological innovations on efficiency and cost reductions in the banking sector is paramount to the successful and profitable service delivery in the sector. Technological innovations play a significant role in improving the efficiency of the banking sector as well as reducing the costs of banking transactions for customers. The banking sector has, for the past decade, witnessed various improvements and new technologies with the main purpose of improving the service delivery of the banking sector (Musara and Fatoki, 2010). Information and communication technology significantly contributed to the exponential growth and profit of financial institutions worldwide. Technology is the key to move towards providing integrated banking services to customers. With the global adoption of technology, Indian banking is also at the threshold of paradigm shift due to the latest changes. To provide excellent services to the customers, banks need to have web based portals, wide area network (WAN), local area network, internet, etc. and all these services are provided by the software industry to Indian banking at reasonable prices and at the right time. Most of the banks in public as well as private sector have technology thrust from RBI to adopt the changes in order to improve the operational efficiencies, security measures, risk reduction and quality upgradation. After liberalization RBI made several changes in the basic structure of banking sector and laid down numerous guidelines on electronic banking, fund transfer, core banking solution, payment system, clearing services, and internet banking. So, it becomes necessary for the banks to adapt sweeping changes in technology. The technology has transformed the way banks deliver their services using technologies and electronic modes. Now banks can reach their customers anywhere, anytime; and customers are able to get instant access to their accounts from any corner of the globe anytime. With increasing competition the customers are also becoming more demanding. To meet customers' expectations banks offer wide range of services like ATM's, telephone banking, mobile banking etc. by upgrading their branches. New technology has rapidly altered the traditional ways of doing banking business. 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, EFT, electronic clearing services, internet banking, mobile banking and phone banking; to a large extent avoid customers going to branch premises and has provided a wider range of services to the customers. There is a degree of variation in the services provided by the banks with the emergence of E-banking services. Due to these technological changes, the term "Electronic Banking" gained utmost importance. E-banking is defined as the automated delivery of new and traditional banking products and services through electronic, interactive communication channels. Through e-banking individuals and corporate customers can access accounts, transact business, transfer funds or obtain information on products and services through the electronic media without any paper transactions. For many customers e-banking means 24 hours access to cash through ATM or direct deposit of pay cheques into savings account but electronic banking involves different types of transactions. E-banking also means transferring of funds electronically with the use of computer and other electronic modes. It allows customers to automate cash receipt payment. Increased productivity and cutting of transaction costs are the most obvious benefits of e-banking. Thus, e-banking has become a mode of value creation in Indian banking sector. Hence, the present study aims to analyse the growth of e-banking in India.

2.0 Review of Literature

2.1 Value Creation

Tsai and Ghoshal (1998) affirmed that social capital facilitates value creation. The study assessed three dimensions of social capital— social interaction, trustworthiness, and shared vision, which had significant effects, directly or indirectly, on resource exchange and combination. Also, the extent of resource exchange and combination was associated with product innovation. The study suggested that investing in the social capital inside a firm eventually creates value. **Grönroos (2011a)** maintained that value for customers means that they, after having been assisted by the provision of resources or interactive processes, are or feel better off than before. Effect of value creation on customer's perceptions include: Increased trust in the supplier; Increased commitment to the supplier; Increased comfort in supplier interactions; and Increased interaction of the supplier. **Grönroos and Ravald (2011)** concluded that creating customer value is a multilaned process consisting of two conceptually distinct sub-processes. These are the supplier's process of providing resources for customer's use and the customer's process of turning service into value. **Grönroos (2011b)** demonstrated that basically it is not the customer, but rather the service provider that gains from value co-creation possibilities. Customers are, by definition value creators, but the opportunities to engage with the customers' usage processes make it possible for firms to become part of customers' value creation, and thus move beyond being value facilitators only and also become co-creators of value with the customers.

2.2 E-Banking

Arora (2003) maintained that technology has a definitive role in facilitating transactions in banks, and the impact of technology on banking system has resulted into the introduction of new products and services by various banks in India. **Paul (2006)** affirmed that IT development affects banking in two ways. First, it contributes in the reduction of costs by replacing paper based and labour intensive methods with automated processes. Second, it modifies the ways in which customers have access to banks' products and services. **Sarangapani and Mamtha (2008)** studied the impact of information technology on banking sector and its security related aspects and found that banking industry is more customer-oriented with unlimited market place, extensive product breadth and e-enabled services provided to the customers. **Kautish (2008)** stated that people prefer to use online banking because of its availability, better performance, speed and its effectiveness. The study also suggested that in order to improve the services through e-banking, banks should think from customers' perspective and there should be creativity and innovation in designing and implementation of e-banking processes.

3.0 Need and significance of the study:

With the development of information technology, the world has become a global village and it has brought a revolution in the banking industry. E-banking is one of the emerging trends in the Indian banking and is playing a unique role in strengthening the banking sector and improving service quality. E-banking has enabled the banks to handle the payments electronically and inter-bank settlement faster and in large volumes. There is increase in customer satisfaction level, reduction in cost of banking operations, increased productivity and as such there is a tremendous scope for Indian banks to enlarge their E-banking services which could enhance their competitiveness. So, it becomes necessary to study the growth and extent of E-banking services in India. Despite the increasing importance of E-banking services, the research pertaining to e-banking in Indian context has been limited. So, the present study attempts to analyse the growth of e-banking in India.

4.0 Objectives of the study:

1. To assess the growth of e-banking in India.
2. To make suggestions on the basis of the findings of the study to enhance value creation in banking sector in India.

5.0 Research Methodology

The present study attempts to highlight the growth of e-banking in India. The study also makes suggestions to enhance value creation in banking sector in India. For the purpose of achieving both the objectives of the study, secondary data has been used which has been accessed from the official website of the Reserve Bank of India. For

assessing the growth of e-banking in India, growth in total number of ATMs, total number of credit cards and debit cards has been analysed. The data is taken for the period of 2009-2010 to 2012-2013. To study the growth of ATMs, Debit cards, Credit cards, growth to previous year has been calculated.

6.0 Results and Discussion

Over the years, the Reserve Bank has laid special emphasis on technology infusion in the day to day operations of banks. Technology, apart from increasing the efficiency of banking services, is expected to boost the ongoing process of financial inclusion emphasised by the Reserve Bank. In recent years, increase in the number of off-site ATMs in various locations as well as use of mobile phones for delivering banking technology has further facilitated banking outreach in remote areas.

6.1 Growth of ATMs in India

ATM has made banking possible 24x7. ATM is a device that allows customers, who have an ATM card, to perform routine banking operations without interacting with a human teller. ATMs are installed on or off the bank's premises. ATMs provide the following facilities to the users: Cash withdrawal, Balance enquiry, PIN change, Cheque book request, Deposit of cash, Bill payment, Mail facility with bank, Transfer of funds, etc. Hence, ATMs are creating value in the banking sector by providing a number of banking facilities to the user without making the user to visit the bank premises.

Table 1. ATMs of Scheduled Commercial Banks (2009-10 to 2012-13)

Bank Group	(in Rupees)			
	2009-10	2010-11	2011-12	2012-13
1.Public Sector Banks	40,680	49,487	58,193	69,652
2.Private Sector Banks	18,447	23,651	36,079	43,101
3.Foreign Banks	1,026	1,367	1,414	1,261
All SCBs (1+2+3)	60,153	74,505	95,686	1,14,014

Source: Trends and Progress Reports of Reserve Bank of India (2009-10 to 2012-13)

Table 1 highlights the growth of ATMs in the scheduled commercial banks of India during the period 2009-10 to 2012-12. It is clear from the table that there is marvellous growth in the ATMs of the commercial banks from the year ending March 2010 to the year ending March 2013. In the year 2009-10, there were 60,153 ATMs in total which grew to 1,14,014 in the year 2012-13. There is 89.54% growth in the ATMs of the scheduled commercial banks in India from the year 2009-10 to 2012-13.

6.2 Growth of Credit cards and Debit cards

Another service provided by e-banking is credit/debit cards, which are got issued from the banks. These cards serve as electronic wallets, the holder need not carry cash all the times to make purchases, etc. A credit card is a promise to pay later, but a debit card is a way to pay now. Debit and credit cards are creating value in Indian banking sector as they are very convenient to use, no personal identification is required. They are useful for everyday purchases. Risk factor is reduced to a great extent, as the user does not carry cash along with him.

Table 2. Credit and Debit cards issued by Scheduled Commercial Banks (2009-10 to 2012-13)

Bank Group	(in millions)							
	2009-10		2010-11		2011-12		2012-13	
	Credit cards	Debit cards	Credit cards	Debit cards	Credit cards	Debit cards	Credit cards	Debit cards
1.Public Sector Banks	3.26	129.69	3.08	170.34	3.06	215	3.5	260.6
2.Private Sector Banks	9.5	47.85	9.32	53.58	9.67	60	11.1	67.3
3.Foreign Banks	5.57	4.43	5.64	3.92	4.92	3.8	5.0	3.3
All SCBs (1+2+3)	18.33	181.97	18.04	227.84	17.65	278	19.5	331.2

Source: Trends and Progress Reports of Reserve Bank of India (2009-10 to 2012-13)

Table 2 depicts the growth in the number of credit cards and debit cards issued by the scheduled commercial banks (Public Sector Banks, Private Sector Banks, and Foreign Banks) from the year 2009-10 to the year 2012-13. The table shows that there was a slight decrease in the number of the credit cards issued by the scheduled commercial banks in the year 2010-11, but after that year, the number began to rise. The number of credit cards issued by the banks in 2009-10 was 18.33 million, which rose to 19.5 million in the year 2012-13. In the year 2009-10, the commercial banks issued 181.97 million debit cards, the number increased to 331.2 million in the year 2012-13. Thus, the table clearly shows that number of debit cards issued by the commercial banks showed an enormous growth in every year which shows that there is a growing trend in e-banking in India, which in turn, is increasing value creation in Indian banking sector.

7.0 Conclusion

With the development of information technology, the world has become a global village and it has brought a revolution in the banking industry. E-banking is one of the emerging trends in the Indian banking and is playing a unique role in improving service quality and increasing value creation in the Indian banking sector. With the help of e-banking, there is an increase in customer satisfaction level, reduction in cost of banking operations, increased productivity and as such there is a tremendous scope for Indian banks to enlarge their E-banking services which could enhance their competitiveness. In order to further enhance e-value creation in banking sector in India, computerisation should be promoted.

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