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Role of Online Banking in Emerging Economies: A Special Reference to Indian Banking Sector

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Abstract : Now-a-days online banking is said to be creating a cashless economies all over the world. The Promotion of online banking technology enabled the banks to enhance its operations with cost cutting effectively and efficiently in order to handle daily banking affairs via online banking channel. A cashless society describes an economic state whereby financial transactions are not conducted with money in the form of physical banknotes or coins, but rather through the transfer of online information (usually an electronic representation of money) between the transacting parties. Cashless catering is a prepay point of sale (POS) technology that allows transactions with the absence of cash at the time of purchase. It is used in canteens, particularly those in schools. This paper concentres on reviewing the role of online banking in creating cashless economies all over the world and a special focus to India.

Keywords: online banking, e-banking, e-commerce, online banking services.

1. Introduction

Now-a-days online banking is said to be creating a cashless economies all over the world. The Promotion of online banking technology enabled the banks to enhance its operations with cost cutting effectively and efficiently in order to handle daily banking affairs via online banking channel. A cashless society describes an economic state whereby financial transactions are not conducted with money in the form of physical banknotes or coins, but rather through the transfer of online information (usually an electronic representation of money) between the transacting parties. A cashless economy is one in which all the transactions are done using cards or online means. There are many benefits of a cashless economy. First of all, there would not be any problem of counterfeit currency. Also, you will be able to do away with the hazards of handling cash. India uses too much cash for transactions. The ratio of cash to gross domestic product is one of the highest in the world—12.42% in 2014, compared with 9.47% in China or 4% in Brazil. In India, Less than 5% of all payments happen electronically. The number of currency notes in circulation is also far higher than in other large economies. India had 76.47 billion currency notes in circulation in 2012-13 compared with 34.5 billion in the US. Some studies show that cash dominates even in malls, which are visited by people who are likely to have credit cards, so it is no surprise that cash dominates in other markets as well.

During the 1990's, the growing popularity of electronic banking made the use of non-cash transactions and settlements

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popular among the residents of some of the most technologically advanced nations of the world. Online payment methods became well established in countries across the world by the 2010's. Online tools like Paypal, NFC payments by smartphone or electronic cards, digital wallet systems operated by Apple, electronic banking and bill payment systems helped people make cashless transactions online. Some countries even started to set limits on transaction values that can be used for non-electronic payments to encourage cashless transactions.

The advent of the Internet has a significant impact on banking service that is traditionally offered by the branches to the customers. With the help of the Internet, customers can do their banking anytime and anywhere as long as Internet access is available. This new type of service has been called "digital banking" or "online banking" or "Internet banking." It can be defined as performing financial transactions over the Internet through a bank's website. Customers are not the only beneficiary of this new service. Making use of online banking, commercial banks may greatly increase the market coverage and better track customers as well. The world is becoming a global village as a result of advancement in information and communication technologies. Unfortunately, the diffusion of electronic banking services in the developing countries of the world lags behind that of developed countries (Akinci et al 2004).

2. Cashless Economies In The World

The top ten cashless economies in the world are Belgium, France, Canada, United Kingdom, Sweden, Australia, Netherlands, United States, Germany and South Korea. The most cashless societies of the world have been enlisted. In Belgium, France, and Canada over 90% of consumer payments are made via cashless modes. The United Kingdom, Sweden, Australia, Netherlands, and the US also have high rates of consumer payments (80% and over) made via non-cash modes. Germany and South Korea also use cashless payments as the major mode of consumer payments. The latter is the only Asian country featuring in the list of the top 10 cashless societies while no country from Africa or South America finds a position in the list. Only time will tell if Indian citizens also favor cashless transaction methods over cash transactions and the effects of cashless transactions on the Indian society and economy.

Hasim and salman (2009) conducted a study to determine the factors that affect sustainability of internet usage by Malay youth in Kota Bharu, a rural town in the north east of peninsular Malaysia. The researchers study and concluded that there is sustainability of internet usage among customer. Gikandi and Bloor (2009) investigate the factors that influence the adoption and effectiveness of e-commerce in retail businesses in Kenya. Two surveys were carried out (Initial and follow-up) in the years 2005 and 2009, respectively, which involved banks controlling approximately 90% of formal retail banking in Kenya. Chong, et al. (2010) empirically examines the factors that affect the adoption decision of online banking in Vietnam. Perceived usefulness, perceived ease of use, trust and government support was examined to determine if these factors are affecting online banking adoption. The results showed that perceived usefulness, trust and government support all positively associated with the intention to use online banking in Vietnam. Contrary to the technology acceptance model, perceived ease of use was found to be not significant in his study.

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Malhotra and Singh (2010) conduct an exploratory study and make effort to present the current status of Internet banking in India and the extent of Internet banking services offered by Internet banks. In addition, it seeks to examine the factors affecting the extent of Internet banking services. Guriting (2006) examines the factors that determine intention to use online banking in Malaysia Borneo. In his study, the perceived ease of use and perceived usefulness factors are considered to be fundamental in determining the acceptance and use of various information technologies.

Broderick's and Vachirapornpuk's (2002) study proposes and tests a service quality model of internet banking. Their research uses participant observation and narrative analysis of a UK internet banking website community to explore how internet banking customers perceive and interpret the elements of the model. Findings of the study show that the level and nature of customer's participation had the greatest impact on the quality of the service experience and issues such as customers' zone of tolerance, the degree of role understanding by customers and emotional response potentially determined, expected and perceived service quality.

Rod et al. (2009) examine the relationships among three dimensions of service quality that influence overall internet banking service quality and its subsequent effect on customer satisfaction in a New Zealand banking context. The results show significant relationships among online customer service quality, online information system quality, banking service product quality, overall internet banking service quality and customer satisfaction. Daniel (1999) quantifies the current provision of electronic services by major retail banking organizations in the UK and the Republic of Ireland. Additional insight into the banks' adoption of this new channel is gained by exploring two areas important in the analysis of new offerings, that is: an organization's approach to innovation; and their view of the current and future markets.

Online banking is a new phase in retail banking services. With the help of Online banking several types of services through which customers can request information and carry out their banking transaction such as balance inquiry, inter account transfers, utility bills payment, request check book etc., via a telecommunication network or internet without physically visit the branches. The Promotion of online banking technology enabled the banks to enhance its operations with cost cutting effectively and efficiently in order to handle daily banking affairs via online banking channel. Customers are being facilitated by reducing their visits in banks and they can carry out their transactions via internet or ATM Machines instead of personally visiting the branches. The security problems have a large contribution to reduce customer satisfaction. The success of any new product and service is highly depending on customer acceptance and customer satisfaction (Huang et al. 2004).

Majority of the customers hesitate to use internet banking services because of security and privacy issues (Lee and Turban, 2001). In online business trust, security and safety are the most challenging issues for the banks. Beside them, to build and retain the customers' trust will also become a future challenge for banks especially in internet banking (Aladwani, 2001). Pucihar (2006) stated that fear and distrust forms the basis for non adoption of the technology in the developing countries but further stressed that there are opportunities for growth in the future.

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With the help of online banking several types of services through which customers can request information and carry out their banking transaction such as balance inquiry, inter account transfers, utility bills payment, request check book etc., via a telecommunication network or internet without physically visit the branches (Daniel, 1999). In online banking business the Automated Teller Machine (ATM) is the first popular system that was introduced to facilitate the users to access and carry out their banking transactions in minimum time. However, the evidences of various researches show that there is a high association between consumers' usage patterns of ATMs and their demographic profiles (Murphy, 1983). In contrast the customer dissatisfaction and resistance is one of the major causes of market failure of innovation, Ram and Sheth (1989).

3. Online Banking and its advantages

Saving money and time are the most crucial advantages for both banks and the users. Besides, electronic banking removes geographical limitations for small and medium size banks, thereby international operations without limits can be operated. No or few time limitations for banking transactions are valid as users can perform most of the banking transactions throughout the day, week and from any place they can have access to Internet.

Carlson (2000) identified that Technological developments in banking make it much easier and cheaper for customers to compare and contrast products and to establish multiple banking connections and enable consumers to alter the purchasing, decision making process of the customer. Kannan (2004) opined that besides its benefits, electronic banking has its own draw backs as well. One of the main important disadvantages of electronic banking applications internationally is the lack of governmental policies that guides Internet banking operations across international Borders.

Zigi and Micheal (2003) found that E-banking has enabled banks to increase their data collection, and management, efficient financial engineering that have improved the ability of assessing potential creditors, measuring the creditworthiness of potential borrowers and to price the risk associated with those borrowers through standardized mechanisms such as credit scoring. SAS Institute AB (2000) mentioned that Customers need access to a computer with internet which signifies that the access to a customer's account is solely dependent in technology in the case of online banking. A third party services is required by the bank to run the online banking services to their clients.

4. Consumer Behaviour and Online Banking

The role of customer satisfaction and long-term customer loyalty has been well established. Most studies on customer satisfaction, however, have been primarily conducted within traditional business contexts. The boom of Internet and electronic commerce in recent times has evoked several research efforts aimed at understanding service satisfaction in relation to the virtual business environment.

Singhal Divya and Padhmanabhan (2008) found that Major factors responsible for internet banking were 'utility request', 'security', 'utility transaction', 'ticket booking' and 'fund transfer'. More than 50 per cent of total respondents agreed that

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internet banking is convenient and flexible ways of banking and it also have various transaction related benefits. Srivastava and Rajesh Kumar (2007) observed in their study that Education, gender, income and training play an important role in usage of internet banking. Inhibitory factors like trust, gender, education, culture, religion, security and price can have minimal effect on consumer mind set towards internet banking.

Naana Adams Abigail and Odartey Lamptey Adnan (2009) examined that Banks need to promote internet banking by having an active stake in the development of internet infrastructure and offering more incentives to customers. Maenpaa Katariina et.al (2008) identified that Consumers' perceptions differed in four of seven dimensions of internet bank services when examined along the criterion of expertise. Results revealed that security was not a concern for any of the user groups. Mannan Syed Abdul (2010) analysed that Customers were satisfied with technology oriented banks products and services. Different parameters and guidelines were suggested to bankers on which they need to improve and spread the awareness of electronic banking products and services. Mohammed Hossain and Shirley Leo (2008) stated that Customers' perception was highest in the tangibles area and lowest in the competence area. Bearden and Teel (1983) found that Gratified customers can be powerful influences if they disseminate favourable word-of-mouth views and sometimes attract new patrons as a result satisfied customers generate high patronage frequency. They tend to remain loyal to the firm, repurchase or spend more with it, and be willing to pay a price premium.

Zeithaml et al. (1996) found that dissatisfied customers may take actions detrimental to the firm, including spreading word-of-mouth criticism, switching patronage to another company, complaining to internal and external agencies, and reducing purchases from the company. If a firm specifies customer satisfaction as a primary goal, there is a high probability that it will be successful in enhancing favorable customer behavioural intentions in the long run. Mittal et al. (1998) found that the effects of negative experiences on customer behavioural consequences are often more severe than those of positive experiences. Hart et al. (1990) found that dissatisfied customers may be rebounded to the organization if the service provider accepts the responsibility for the action and resolves the underlying problems. Anderson and Sullivan (1993) found that overall customer satisfaction has been traditionally treated as a mediating variable in determining the influence of satisfaction antecedents on behavioural consequences.

5. Conclusion

Cashless economies would be helpful to the global economy. Since cash is the primary mode of transactions in money laundering and terrorism financing, a cashless society would discourage such laundering and terrorism. Central governments would also benefit from such cashless transactions as it would allow central control of money supply. It would be easier for government to monitor income tax paid by individuals and proper payment of tax would strengthen the nation's economy. Cashless transactions would be helpful in the context of negative global inflation and quantitative easing. Going cashless would also reduce the levels of corruption prevalent in the country. The move towards a cashless economy is heavily debated and controversy-prone. Several points have been raised about the negative effects of cashless transactions. In a cashless country, the complete control of transactions, individual

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use of money, information about public monetary assets, and interest rates are with the nation state and third party providers. An individual's money is under external control and is subject to external regulations and restrictions. Negative interest rates might become applicable. Also, in a cashless society, individual transactions and incomes become accessible to legitimate parties like police or tax officials, and chances of hacking also increase. If the governments of the economies are able to take care of the problems and issues discussed so far it is feasible to form a cashless economy. But it is always advisable to have an economy which is having both the cash and cashless formats. Still it can be suggested that the citizens who are comfortable with cashless transactions like in urban areas they can perform cashless transactions and making the cash available to rural areas who are not well versed with cashless transactions.

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