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Electronic Banking

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Introduction of E-Banking

Electronic banking: is defined as the automated delivery of new and traditional banking products and services directly to customers through electronic, interactive communication channels.

Electronic banking: also known as electronic funds transfer (EFT), is the use of electronic means to transfer funds directly from one account to another, rather than by cheque or cash.

Introduction of E-Banking

Internet Banking (or E-Banking) means any user with a personal computer and a browser can get connected to his bank's website to perform any of the virtual banking functions.

The term "electronic banking" or "e-banking" covers both computer and telephone banking

Introduction

- E-Banking involves consumers using the Internet to access their bank account and to undertake banking transactions. At the basic level, Internet banking can mean the setting up of a web page by a bank to give information about its products and services. At an advanced level, it involves provision of facilities such as accessing accounts, transferring funds, and buying financial products or services online.

- In the 1990s, banks realized that the rising popularity of the World Wide Web gave them an added opportunity to advertise their services. Initially, they used the Web as another brochure, without interaction with the customer. Early sites featured pictures of the bank's officers or buildings, and provided customers with maps of branches and ATM locations, phone numbers to call for further information and simple listings of products.

History of E-Banking

- At the beginning of the seventies, the information industry emerged, which came as a result of the expansion in the field of computers.
- The banking sector has been affected by the new technology.
- In France, the clearing computer appeared in Bank de France in 1969.
- In 1977, the US Congress established a special committee to study the possibility of conducting electronic money transfers using communication and information technology.

History Of E-Banking

- In 1979, a European agreement was signed in Monaco, inviting the European Association for Financial Marketing, and whereby the member states should use modern technology in the banking sector.
- The same is observed in the Scandinavian countries and Japan
- In 1978, the United Nations Commission on International Trade Law issued a recommendation regarding the legal aspects of the international transfer of money through electronic means.
- In the same year, the International Chamber of Commerce commissioned a working group to study the legal problems resulting from the information processing of money transfer between banks in different countries.

History Of E-Banking

- E-Banking History dates back to 1980s.
- The term online became popular in the late '80s and referred to the use of a terminal, keyboard and TV (or monitor) to access the banking system using a phone line
- Stanford federal credit union was the first who offer online internet banking services to all of its members in 1994.
- Later on snapped up by other banks like Well Fargo, Chase Manhattan and Security First Bank.
- Financial institutions took steps to implement E-banking services in the mid-1990s.
- It took widespread adoption of electronic commerce, based on trailblazing companies such as America Online, Amazon.com and eBay, to make the idea of paying for items online widespread.
- By 2000, 80 percent of U.S. banks offered e-banking.

Concept of E-Banking

- E-banking refers to electronic banking. It is like e-business in banking industry. E-banking is also called as "Virtual Banking" or "Online Banking".
- E-banking is a result of the growing expectations of bank's customers. E-banking involves information technology-based banking.
- Under this I.T system, the banking services are delivered by way of a Computer-Controlled System. This system does involve direct interface with the customers. The customers do not have to visit the bank's premises.

Core Banking

- **Core banking** can be defined as a back-end system that processes banking transactions across the various branches of a bank. The system essentially includes deposit, loan and credit processing.
- Core banking systems are aimed at empowering existing and probable customers to have a greater freedom of their account transactions.
- Core banking always brings down operational costs considerably, ensuring lesser manpower requirement for execution. It also enables greater accountability of the customers.
- Software application based platforms make core banking systems user-friendly and more efficient.

Universal banking

- **Universal banking** is a combination of Commercial banking, Investment banking, Development banking, Insurance and many other financial activities.
- Which offers commercial bank functions plus other functions such as Merchant Banking, Mutual Funds, Factoring, Credit cards, Housing Finance, Auto loans, Retail loans, Insurance, etc.

Advantages of Universal Banking

1. Investors' Trust
2. Economics of Scale
3. Resource Utilization
4. Profitable Diversification
5. Easy Marketing
6. One-stop Shopping

Disadvantages of Universal Banking

1. Different Rules and Regulations
2. Effect of failure on Banking System
3. Monopoly
4. Conflict of Interest

Offshore Banking

- **The offshore banking** refers to the deposit of funds by a company or an individual in a bank that is located outside their national residence.
- **Some of the financial and legal advantages:**

1. Greater privacy
2. Little or no taxation (i.e. tax havens)
3. Easy access to deposits (at least in terms of regulation)
4. Protection against local, political, or financial instability
5. The offshore banking has often been associated with the underground economy, organized crime, tax evasion and money laundering.

E-Banking & Traditional Banking

- **E-Banking:** Electronic banking is a form of banking in which funds are transferred through an exchange of electronic signals rather than through an exchange of cash, checks, or other types of paper documents.
- **Traditional Banking:** Traditional banking is probably what you are most familiar with. **The bank has a physical location that you visit in order to open an account.** Some traditional banks will allow you to open accounts online, but you still may need to visit the bank to confirm your identity or submit documents.

E-Banking & Traditional Banking

Parameter of Comparison	Electronic Banking	Traditional Banking
Contact	Customers can have only electronic or online contacts.	Customers can have a direct face to face communication from their bankers.
Customer service	In online banking, the customers of the bank don't have to stand in lines to perform their banking transactions.	In traditional banks, the employees and staff members of the bank can attend only a limited number of the customers. And customers have to stand in line to perform their banking transactions.
Costs	No costs are incurred in Internet banking as they do not have a physical appearance.	There are many operating and fixed costs that are incurred by traditional banks.
Accessibility	Customers can operate their accounts anytime, anywhere using their mobile phones.	Customers have to visit the bank for their work only in working hours.
Time	Internet banking is not a time taking process as customers do not have to visit their branches to operate their accounts	Traditional banking drains a lot of time from the customers as they have to visit their branch to obtain access to their accounts.

Difference between Electronic Banking & Internet Banking

- **Internet banking or online banking or net-banking** is a digital payment system which enables customers of a bank or a financial institution to make financial or non-financial transactions online via the internet. On the other hand, E-banking or Electronic Banking refers to all the forms of banking services and transactions performed through electronic means.

- **Electronic banking or E-banking** is a broad category of accessing banking services via electronic means, whereas Internet banking is a part or type of electronic banking. It is also known as electronic funds transfer (EFT) and uses electronic means to transfer funds directly from one account to another.

Difference between Electronic Banking & Internet Banking

- With internet banking, customers can obtain every banking service, traditionally available through a local branch including fund transfers, deposits, and online bill payments to the customers.
- Electronic banking includes various transaction services such as internet banking, mobile banking, telebanking, ATMs, debit cards, and credit cards. Internet banking is one of the latest additions to electronic banking.

Definition of E-Banking

- For many people, electronic banking means 24-hour access to cash through an automated teller machine (ATM) or Direct Deposit of paychecks into checking or savings accounts. But electronic banking involves many different types of transactions, rights, responsibilities and sometimes, fees.
- **E-banking** is defined as the automated delivery of new and traditional banking products and services directly to customers through electronic, interactive communication channels.

Services / Transactions

- Answering routine queries
- Bill payment service
- Electronic Fund transfer(EFT)
- Electronic Clearing System(ECS)
- Credit card customers
- Railway Pass
- Investing through internet banking
- Recharging your prepaid phone
- Shopping

Non Transactional Activities

1. Account balance viewing
2. Viewing of previous bank transactions
3. Bank statement downloading
4. Check book ordering
5. Viewing of images of paid cheques
6. M banking and E banking applications downloading
7. Provision of account/ bank statements

Transactional Activities

1. Electronic funds transfer
2. Bill payments and wire transfers
3. Loan application and repayments
4. Buying investment products

The website components of E-Banking

The e-banking websites can be primarily classified into two categories:

- Informational websites
- Transactional websites

- **Informational Websites:** Informational websites provide customers access information to general information about the financial institution and its products or services. Risk issues examiners should when reviewing informational websites include.

- **Transactional Websites:** A transactional websites is a type of website where you can things from, for example, Amazon or eBay. This is connection between the customers and the company, therefore a transaction is being made.

Why E banking?

- Differentiation of products from the others.
- A combination of regulatory and competitive reasons.
- Stress on branchless banking.
- Increasing volumes of banking transactions.
- Providing customers with cost effective services

Uses of E-Banking

Use electronic funds transfer to:

- Have your paycheck deposited directly into your bank or credit union checking account.

- Withdraw money from your checking account from an ATM machine with a personal identification number (PIN), at your convenience, day or night.

Uses of E-Banking

- Instruct your bank or credit union to automatically pay certain monthly bills from your account, such as your auto loan or your mortgage payment.

- Have the bank or credit union transfer funds each month from your checking account to your mutual fund account.

Uses of E-Banking

- Have your government social security benefits check or your tax refund deposited directly into your checking account.

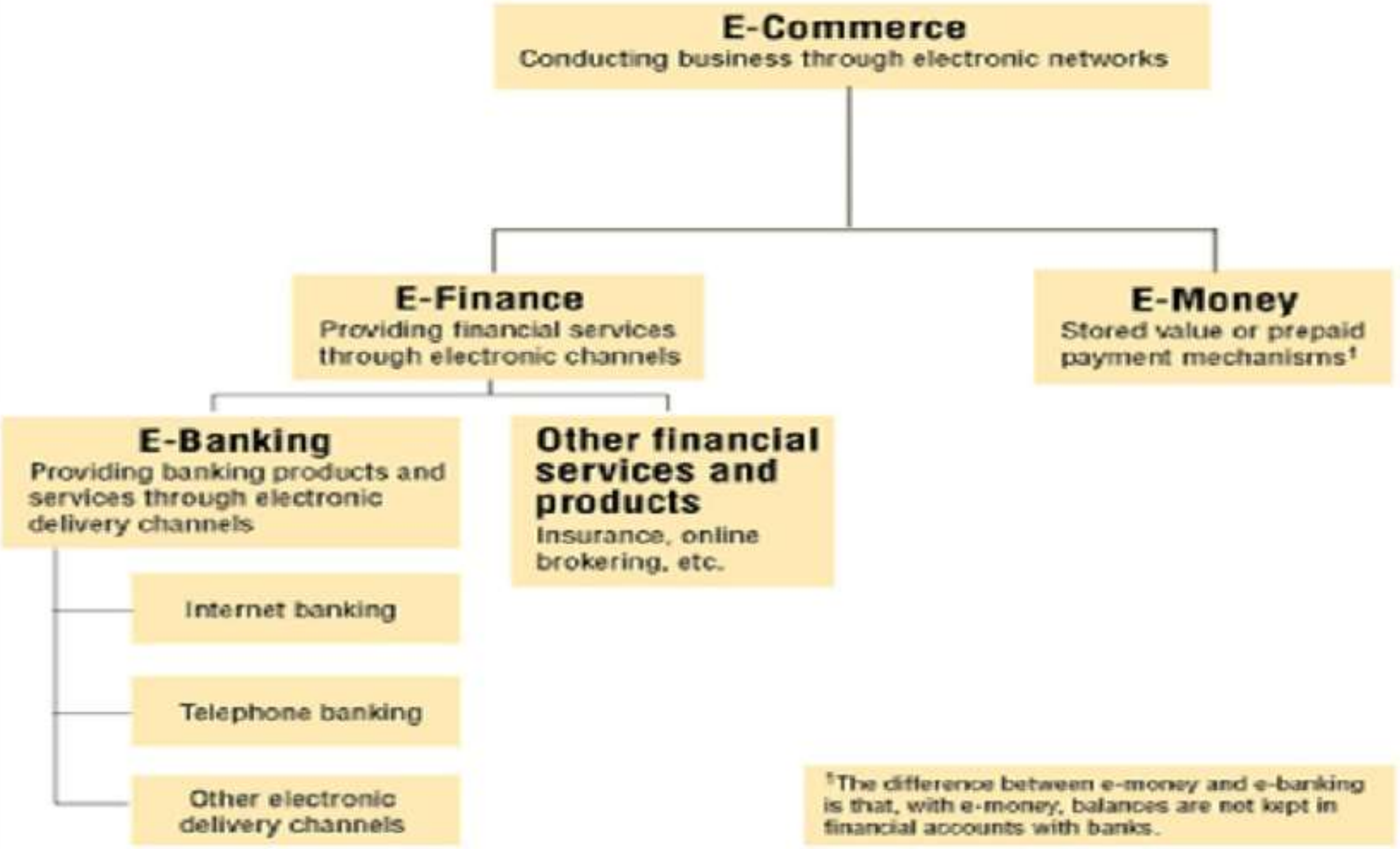
- Buy groceries, gasoline and other purchases at the point-of-sale, using a check card rather than cash, credit or a personal check.

Uses of E-Banking

- Use a smart card with a prepaid amount of money embedded in it for use instead of cash at a pay phone.

- Use your computer and personal finance software to coordinate your total personal financial management process, integrating data and activities related to your income, spending, saving, investing, recordkeeping, bill-paying and taxes.

What is electronic banking?



Levels of services offered in E-Banking

- Information Only System
- Electronic Information Transfer System
- Fully Electronic Transactional System

Two approaches E-banking

1- Dial-in Approach:

- Requires users to have a separate finance software, so that they can do all the process offline and connect to the bank just for transactions.

2- Internet Approach:

- Users directly log on to their bank website and complete all their work online.

Why E-Banking important?

- **Some of these major benefits are:**
- Choice and Convenience for Customers
- Attracting High Value Customers
- Enhanced Image
- Increased revenues
- Easier Expansion

Benefit of E-Banking

- Anytime banking ,and anywhere banking
- Online Banking is much cheaper for the bank. A survey says that Online Banking costs only 10% of branch services
- Reduction in cost of transaction
- Pay bills online there by saving postal services.
- Easy to make utility payment
- Online purchases
- The services are available seven days a week, 24 hours a day.

Drawback of E-banking

- Difficult in adoption technology
- Fear of technology
- High cost of technology
- Lack of preparedness
- Restriction on usage of technology

Advantages to Banks

- Very low setup cost.
- Capability to cater to a very large customer base.
- Saves a lot of operational costs.
- Banks can offer a lot of personalized services to their customers.
- Reduction of burden on branch banking

Advantages to Customers

- It is convenient.
- It isn't bound by operational timings.
- There are no geographical barriers.
- Services can be offered at a miniscule cost.
- Check your transactions at any time of the day, and as many times as you want to.
- Getting quarterly statements from the bank, transferring funds to outstation, and other such activities can be done free of charge through online banking

E- Banking devices

- Personal computers (PCs),
- Personal digital assistants (PDAs),
- Automated teller machines (ATMs), Kiosks,
- Touch tone telephones,
- Cellular and smart phones

Services covered under E-Banking

1. Automated Teller Machines (ATM)
2. Credit Cards
3. Debit Cards
4. Electronic Funds Transfer (EFT)
5. National Electronic Funds Transfer (NEFT)
6. Real Time Gross Settlement(RTGS)
7. Mobile Banking

Automated Teller Machines (ATM)

- **ATMs** are electronic machines, which are operated by a customer himself to deposit or to withdraw cash from bank.
- For using an ATM:

1. A customer has to obtain an ATM card from his bank.
2. The customer has to inset the card in the machine.
3. He has to enter the pass word (number).

Advantages of Automated Teller Machines (ATMs)

1. ATM provides 24 hours service
2. ATM gives convenience to bank's customers
3. ATM reduces the workload of bank's staff
4. ATM provide service without any error
5. ATM is very beneficial for travelers
6. ATM may give customers new currency notes
7. ATM provides privacy in banking transactions

Disadvantages of ATMs

1. ATMs may be unreliable especially when they are down
2. It may be forget your PIN
3. May lose the ATM card
4. The ATM machine does not guarantee a 100% availability of cash
5. The cost of levied to an individual using an ATM could be higher

Debit Card

- A **debit card** is a plastic card that resembles credit card. Debit cards are directly linked to a cardholder's bank account.
- Whenever a card holder withdraws money from an ATM or uses the debit card for making payments, his/her account balance is automatically reduced.

Advantages of debit cards

1. Prepaid card
2. Nominal fee
3. Alternative to cash
4. Immediate transfer of funds
5. Instant withdrawal of cash
6. Easy to manage

Disadvantages of debit cards

1. One needs to have enough money in his or her bank account
2. One has less protection if the debit card is lost or stolen as compare to credit card
3. If something goes wrong with the purchase, bank won't put money back into account

Credit Card

- A **credit card** is a plastic card which can be used as substitute for cash.
- It is widely used by people for make payment whether it is a small sum involving buying a movie ticket or big sum like purchasing some furniture or payment at hospitals.
- Banks issue it to their customers to enable them to purchase on credit
- **Parties to credit card holders:**

1. Issuer
2. Card Holder
3. Member establishments
4. Member affiliates

Types of credit card

1. Credit card
2. Charge card
3. In store cards
4. Corporate Credit card
5. Smart card

Characteristics or features of credit card

1. Alternative to cash
2. Credit limit
3. Aids payment in domestic and foreign currency
4. Record keeping of all transactions
5. Regular charges
6. Grace period
7. Higher fees on cash withdrawals
8. Additional charges for delay in payment
9. Service tax
10. Bonus points
11. Gifts and other offers

Advantages of Credit Cards

1. Credit card reduces need to carry cash or checks.
2. Make large purchase, credit allows to buy it at once and settle up later.
3. Offer consumers flexible, in which points earned by purchasing goods with the card.
4. A credit card means you can make purchases abroad without having to worry about local currency.
5. Using credit cards can help build a positive credit history.
6. Many credit cards offer some type of insurance if the purchase is stolen.
7. Credit cards enhance personal responsibility and independence.
8. Many of these advantages are found in the fine print of the statement that came with the credit card.
9. Only works because many people do not pay their balance at the end of the month.

Disadvantages of credit cards

1. The biggest disadvantage is that they are inviting cardholders to spend more money that they don't yet have.
2. Credit cards can be stolen, as can cash.
3. Credit cards issue a monthly spending limit.
4. If a credit card is not used wisely, can get into debt or even bankruptcy.