Vol 7 Issue 2 March 2017

ISSN No : 2230-7850

International Multidisciplinary Research Journal

Indian Streams Research Journal

Welcome to ISRJ

RNI MAHMUL/2011/38595 **ISSN No.2230-7850**

Indian Streams Research Journal is a multidisciplinary research journal, published monthly in English, Hindi & Marathi Language. All research papers submitted to the journal will be double - blind peer reviewed referred by members of the editorial board.Readers will include investigator in universities, research institutes government and industry with research interest in the general subjects.

Address:-Ashok Yakkaldevi 258/34, Raviwar Peth, Solapur - 413 005 Maharashtra, India
Cell : 9595 359 435, Ph No: 02172372010 Email: ayisrj@yahoo.in Website: www.isrj.org

INDIAN STREAMS RESEARCH JOURNAL

ISSN: 2230-7850
IMPACT FACTOR : 5.1651(UIF)
VOLUME - 7 | ISSUE - 2 | MARCH - 2017

"TRADITIONAL BANKING VS E-BANKING: WHICH IS BETTER?"

Dr. R. Shoba Rani
Assistant Professor, Nanjil Catholic College of Arts and Science, Kaliyakkavilai.

ABSTRACT

In a traditional bank, as opposed to online banking, you physically present your check for deposit, get cash handed back to you, place items into or take them out of bank safety deposit boxes. In traditional banking system, a customer can open any bank account in banks; take the facility of saving his money by depositing money in local bank. He can withdraw his money through check, counter payment and through bank draft. He can meet the bank manager and ask his problem. He can take the physical help for getting loan from bank.

Electronic banking has become the necessity of these days. E-banking comprises of internet banking, smart cards, debit cards, credit cards, ATM and charge cards etc. Now-a-days foreign banks are also entering into the Indian Banking Market. Many people are having access to internet and mobile connections. But everything has two aspects good and bad. The adoption and switch over to E-banking will also raise certain legal issues and disputes in the future which have to be anticipated and remedial measures for the same need to be adopted. All these E-banking transactions are being supervised and regulated by the guidelines of RBI. Such as all banks that are providing Internet Banking are required to have prior approval from RBI.

KEYWORDS- *Traditional Banking , Indian Banking Market , modern information technology .*

CONTENTS

Introduction -Traditional Banking

Now adays, the commercial banks are not only doing the banking business but they have diversified their activities into different fields of operation. However, their activities are mainly confined to the traditional business of banking.

"Banking is defined as accepting for the purpose of lending or investment of deposit of money from the public repayable on demand or otherwise and withdraw able by cheque, draft order or otherwise."
-The banking regulation Act 1949.

In traditional banking system, a customer can open any bank account in banks; take the facility of saving his money by depositing money in local bank. Customer can withdraw his money through check, counter payment and through bank draft. Customer can meet the bank manager and ask his problem. He can take the physical help for getting loan from bank.

Main Functions

- Accepting the deposits
- Lending of loans
- Subsidiary services

Traditional banking has three distinct components:

1. Capital
2.Deposits
3. Loans

Capital

The pillars of Traditional Banking (Deposits & Loans)

VOLUME - 7 | ISSUE - 2 | MARCH - 2017

rest upon the foundation of Capital. All banks must have access to Capital, which is leveraged with deposits and then prudently converted into loans that generate jobs and economic growth. Friends of Traditional Banking support policies that facilitate the flow of capital into our banking system and which allow market driven returns to be earned on capital that is placed at risk.

Deposits

Once Capital is invested, it is leveraged through the collection of deposits that represent the savings or liquid reserves of individuals and businesses in the community. Government through the Federal Deposit Insurance Corporation (FDIC). This guarantee lowers the required return and results in an appropriate level of regulation. Depositors have ready access to their deposits through a number of tools (i.e. checks, debit cards, internet, and other electronic transfers, etc.) Friends of Traditional Banking supports policies that promote the ability to attract deposits and oppose policies that unduly increase the cost (regulatory or financial) of those deposits, or in any way disrupts an individual's or business' access to these deposits.

Loans

The combination of Capital and FDIC insured Deposits constitutes the basis for the amount of money that can be disbursed in Loans. Prudent loans to individuals and businesses drive healthy economic growth. Friends of Traditional Banking support policies that facilitate the market based pricing and granting of loans which accurately reflects risk. We oppose policies that increase the cost of lending, inject political, non-market based criteria into the lending process, or arbitrarily restrict or distort the allocation of credit in the economy.

Our focus is on achieving policies that promote and preserve Traditional Banking, recognizing that there are many types of FDIC insured charters, and varying corporate structures of all sizes, engaged in this critical process.

E-BANKING

A sound and effective banking system is the back bone of an economy. The economy of a country can function smoothly and without many hassles if the banking system banking it is not only flexible but also capable of meeting the new challenges posed by the technology and other external as well as internet factors. The technology holds the key to the future success of Indian Banks. Thus "Electronic Banking" is the need of the hour which cannot be cost sight of except at the cost of elimination from the competition.

The application of modern information technology has altered the traditional way of doing banking business. The computer networks have helped to make modernized development in sector. For example Funds transfer, Electronic Data Interchange, SWIFT etc. E-banking has been shaping the financial sector worldwide. E-banking is developing gradually and it is getting acceptance globally. E-banking is the one of the major part of E-financing. It is the banking which is web based banking. E-banking is one in which banking operations are carried through electronic devices. It is the process of conduct of banking with the use of electronic tools and facilities.

E-banking is also called as 'virtual banking' or 'online banking' or 'computer banking'.

Technology is not taking banks to the homes or offices, 24 hours a day, 365 days a year through ATMs, phone banking and PC banking. The financial supply chain is undergoing a fundamental strategic change. E-banking is the heart of a modern financial service organization.

Banks make these services available across multiple channels like ATMs, internet banking and branches.

• Traditional banking and e-banking are two ways for getting the benefits from bank. Both have benefits and disadvantages. Customer can use both or any of these facilities. The differences between traditional banking and Internet banking on the basis of presence, time, accessibility, security, finance control, expensive, cost, customer service and contact are differentiated as follows.

VOLUME - 7 | ISSUE - 2 | MARCH - 2017

Differences between traditional banking and e-banking

Differences	Traditional banking	E-banking
Presence	Banks exist physically for serving the customers,	E-banks do not have physical presence as services are provided online.
Time	It consumes a lot of time as customers have to visit banks to carry out bank transactions like — checking bank balances, transferring money from one account to another.	It does not consume time as customers do not have to visit banks to check bank balances or to transfer money from one account to another. Customers can access their account readily from anywhere with a computer and internet access.
Accessibility	People have to visit banks only during the working hours.	E- Banking is available at any time and it provides 24 hours access.
Security	Traditional banking does not encounter e-security threats.	Online banking is the tempting target for hackers. Security is one of the problems faced by customers in accessing accounts through internet.
Finance Control	Customers who often travel abroad cannot pay close attention and control of their finances.	Customers who often travel abroad can have greater control over their finances.
Expensive	Customers have to spend money for visiting banks.	Customers do not have to spend money for visiting banks. They can avoid bank charges that may be charged for certain teller transactions or when they pay bills electronically — directly from their account to the merchant. It helps to save money on postal charges.
Cost	The cost incurred by traditional banks includes a lot of operating and fixed costs.	Such costs are eliminated as the banks do not have physical presence.
Customer Service	In traditional banks, the employees and clerical staff of the bank can attend only few customers at a time.	In online banking, the customers do not have to stand in queues to carry out certain bank transactions.

TECHNOLOGY USED IN E-BANKING

1. National Electronic Fund Transfer (NEFT)

The RBI started EFT system in Feb. 1996 on the recommendations of the share committee. This system facilitates transfer of funds from one centre to another across bank. It is a system of transferring money from one bank to another without paper money in a short interval of time. It is offered by computerised branches of certain banks.

2. Automated Teller Machines (ATMs)

An ATM is computerized machine designed to dispense cash to bank customers without the need to human introduction. ATM is an electronic delivery channel. ATM means 24 hours money transaction. It is also known a cash machine as it offers a range of services of modern banking. ATMs are installed now-a-days, at every not and corner in most of the towns and cities. This requires a valid customer ID and password to log in and is therefore safe to be used.

3. Debit Cards

A debit card is also a payment card. It is used to obtain cash, goods or services automatically, debiting the payments to the card holder's bank account instantly up to the credit balance available in the customer's account.

Debit card is another advanced technology of the electronic banking. These cards are the multi-purpose cards and can be used in ATMs for balance enquiry card cash withdrawal or can be used for easy shopping at various counters.

4. Credit Cards

Credit card is a post paid card where are holder is required to pay the amount spend on the card on purchases, in a stipulated time after the purchase bill is sent by the card issuing bank. A credit card system is a type of retail transaction settlement and credit system, named after the small plastic card issued to users of the system. In contrast, a credit card allows the consumer to 'revolve' their balance, at the cost of having interest charged. Most credit cards are the same shape and size, as specified by the ISO 7810 standard.

5. Charge Cards

A charge card is a means of obtaining a very short term loan for a purchase. It is similar to a credit card, except that the contract with the card issuer requires that the card holder must each month pay charges made to it in full there is no "minimum payment" other than the full balance.

6. Smart Cards

Smart card is a kind of an electronic purse, which is a chip, based card. Smart cards are plastic cards like credit cards just the size of the visiting card with an implanted computer chip on them, which is responsible for storing sensitive data and processing them.

7. Real Time Gross Settlement (STGS)

In this system was introduced in March 2004. It is a system through which electronic instructions can be given by banks to transfer funds from their account to the account of another bank. Under this system fund is transferred on real time basis with in the country on gross settlement. It provides fastest possible interbank money transfer facility. Under this system, money can reach the beneficiary customer as soon the transaction is processed. That is there is no waiting period to receive funds.

Gross settlement means the transaction is settled on one to one basis.

8. Society for Worldwide Interbank Financial Telecommunication (SWIFT)

SWIFT, as a co-operative society was formed in May 1973 with 239 participating banks from 15 countries with its headquarters at Belgium. It commenced its operation from May 1977. It is a carrier of message. It transports messages between to financial institutions. But it cannot be used to transfer funds. But it can be used to send payment orders.

SWIFT provides rapid, secure and reliable and cost effective mode of transmitting the financial message worldwide. It provided a centralized store and forward mechanism, with some transaction management.

SWIFT was upgraded in 1980s and this version is called SWIFT II. Banks in India are hooked to SWIFT II system.

ADVANTAGES OF E-BANKING

TO BANKS

- To ensures better customer relationship.
- To ensure large number of satisfied of customers.
- It provides information.
- It provides an opportunity for banks to deliver a dynamic change of virtual financial services at less cost through the network.
- There is more scope for offering differential services under e-banking.
- It contributes to profitable banking for banks through reduced cost of operations, increased number of satisfied customers.
- E-banking enables banks to pay certain fees or to transfer between accounts.
- It attracts new customers because of the availability of innovative banking facilities.
- It helps to expand the bank's operation.
- It ensures effective Regulation and base supervision.

TO CUSTOMERS

- Customers are able to get better knowledge of state of accounts.
- Customers can enjoy wide range of banking products and services at reduced cost.
- E-banking services are available to customers round the clock.
- In E-banking increased comfort and time saving facilities are made available to customers 24 hours a day.
- It is a boon of the customers.

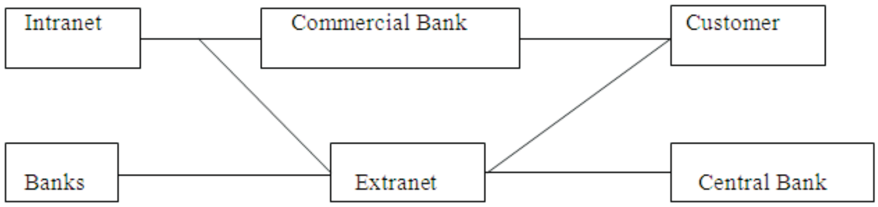
DISADVANTAGES

- Huge initial start up cost
- Training and maintenance
- Lack of skilled personnel
- Security threat
- Risk of loss from breach of security
- Adoption of technology

- Customer's acceptance
- Legal issues
- Security measures for e-banking

Process of E-Banking

The model of E-banking is given below.



Extensive work is required to integrate internal and external communication of banking related information. For this internet and intranet are very useful.

MANAGEMENT PROBLEMS

1. Regulatory issues
2. Information management
3. Our sourcing problems
4. Loss of personal relationship
5. Security problems
6. Organisational structures and resistance

The Indian Experience

India is still in the early stages of E-banking growth and development. Competition and changes of technology and lifestyle in the last five years have changed the face of banking. The changes that have taken place impose on banks tough standards of competition and compliance. The issue here is 'where does India stand in the scheme of E-banking. E-banking is likely to bring a host of opportunities as well as unprecedented risks to the fundamental nature of banking in India.

The impact of E-banking in India is not yet apparent. Many global research companies believe that E-banking adoption in India in the near future would be slow compared to other major Asian countries. Indian E-banking is still nascent, although it is fast becoming a strategic necessity for most commercial banks, as competition increases from private banks and non banking financial institutions.

The importance of the impact of technology and information security cannot be doubted. Technological developments have been one of the key drivers of the global economy and represent an instrument that if exploited well can boost the efficiency and competitively of the banking sector. However, the rapid growth of the internet has introduced a completely new level of security related problems. The problem here is that since the internet is not a regulated technology and it is readily accessible to millions of people, there will always be people who want to use it to make illicit grains. The security issue can be addressed at three levels. The first is the security of customer information as it is sent from the customer's PC to the web server. The second is the security of the environment in which the internet banking server and customer information database reside. Third, security measures must be in place to prevent unauthorized users from attempting to long into the online banking section of the website.

Regarding the regulatory and supervisory issues, only such banks which are licensed and supervised and have a physical presence in India will be permitted to offer E-banking products to residents of India. With institutions becoming more and more global and complex, the nature of risks in the international financial system has changed. The regulators themselves who will now be paying much more attention to the qualitative aspects to risk management have recognized this.

Taxation and E-commerce transaction has been one of the most debated issues that are yet to be resolved by India and most other countries. The explosive growth of E-commerce has led many executives to question how their companies can properly administer taxes on internet sales. Without sales tax, online sellers get a price advantage over brick and mortar companies. While E-commerce has been causing loss of tax revenues to the government, many politicians continue to insist that the net must remain tax-free to ensure continued growth, and that collecting sales taxes on net commerce could restrict its expansion.

Thus efficiency, growth and the need to satisfy a growing tech-survey consumer base are three clear rationales for complementing E-banking in India. The four forces – customers, technology, convergence and globalization have the most important effect on the Indian financial sector and these changes are forcing banks to redefine their business models and integrate technology into all aspect of operation.

CONCLUSION

From all of this, we have learnt that information technology has empowered customers and businesses with information needed to make better investment decisions. At the same time, technology is allowing banks to offer new products, operate more efficiently, raise productivity, expand geographically and compete globally. A more efficient, productive banking industry is providing services of greater quality and value.

E-banking has become a necessary survival weapon and is fundamentally changing the banking industry worldwide. Today, the click of the mouse offers customers banking services at a much lower cost and also empowers them with unprecedented freedom in choosing vendors for their financial service needs. No country today has a choice whether to implement E-banking or not given to global and competitive nature of the economy. The invasion of banking by technology has created an information age and commoditization of banking services. Banks have come to realize that survival in the new e-economy depends on delivering some or all of their banking services on the internet while continuing to support their traditional infrastructure.

The rise of E-banking is redefining business relationships and the most successful banks will ne those that can truly strengthen their relationship with their customers.

Without any doubt, the international scope of E-banking provides new growth perspectives and internet business is a catalyst for new technologies and new business processes. With rapid advances in telecommunication systems and digital technology, E-banking has become a strategic weapon for banks to remain profitable. It has been transformed beyond what anyone could have foreseen 25 years ago.

Finally, at present E-Banking is better than traditional banking. Because in India E-Banking is in a nascent stage. No doubt Indian banks are making sincere efforts for the adoption of advanced technology and installation of e-delivery channels but still masses are wary of the concept. Banks are making sincere efforts to popularise 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.

BIBLIOGRAPHY

1.The Business of Banking – Geoffrey Lipscombe and Keith ponel
2.E-commerce – An Indian perspective – Intrajit Chatterjee.
3.Modern Banking – Dr. V.M. Selva Raj
4.Banking Theory Law and Practice – B. Santhanam
5.Principles and Practices of Banking – Indian Institute of Banking & Finance – Macmillan education
6.Banking Theory Law and Practice – S.M.Sundaram
7.Innovations in banking sector – opportunities and challenges- P.K. Aboobacker, Dr.K. Subramaniam, Dr.B.A. Abdul Karim, A.Hamil

WEBSITE

• www.modernbanking.com
• www.traditionalbanking-e-banking.com