'E'-Banking and 'E'-Commerce

Emerging Issues in India

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Preface

Banking industry in India has underwent radical changes. The banking sector reforms in India, enabled the banking personnel to update their knowledge. In the modern computer world, all the activities of the banking transactions are made through electronic/computers. More specifically after the introduction of New Economic Policy there is an urgent need for 'e'-banking practices. Section A in this book narrates some major perspective issues of 'e'-banking and section 'B' deals with the 'e'-commerce. It is very useful to the banking personnel, corporate bodies, an academicians, researchers and student communities.

To thank profusely Scholars and Authorities is a pleasure indeed. I am greatly indebted to Theiva Thirumakan Urumu Seshachalam Chettiyar Founder Urumu Dhanalakshmi College, Sri. G.R. Kalki Varatharajulu President, Seva Ratna Mothi. S. Rajagobal, Secretary and Sri. Mothi. S. Pattabiraman Treasurer for their constant encouragement.

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One again I place my sincere thanks to Dr. M. Murugesan, Reader and Head, Department of Commerce (Eve.) Urumu Dhanalakshmi College and his wife. Mrs. M. Manimegalai Murugesan B.A., for their excellent help in all stages.

I will be failing in my duty if I do not express my thanks to my beloved wife Mrs. S. Shanthi Subramani B.Sc., B.Ed. for her moral and intellectual support.

I have a long list of well wishers who inspired me in preparing this book. To save space I omit their names. I however take solace from John Keat's words "Heard melodies are Sweet those un heard are Sweeter".

My profound thanks are to Miss K. Sangeetha Lakshmi M. Com(FM)., for her excellent help in this task.

I do not claim that I could cover all the aspects of the 'e'-banking and 'e'-commerce within the limited space, but I firmly believe that this book will be very useful to all concerned.

Rest, I leave for the readers.

Dr. N. SUBRAMANI

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SECTION—A

'E'–BANKING

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Anatomy of Banking in India

Introduction

The present day Indian banking system has three tiers. These are the scheduled commercial banks; the regional rural banks, which operate in rural areas, nor covered by the scheduled banks; and cooperative and special purpose rural banks.

There are approximately 80 scheduled commercial banks, both Indian and foreign; almost 200 regional rural banks, more than 350 central cooperative banks, 20 land development banks; and a number of primary agricultural credit societies. In terms of business, the public sector banks, namely the State Bank of India and the nationalized banks, dominate the banking sector.

Scheduled commercial banks constitute those banks, which have been included in the Second Scheduled of the Reserve Bank of India (RBI) Act, 1934. These banks enjoy certain privileges such as free concessional remittance facilities and financial accommodation from the RBI. They are also obliged to maintain a minimum Cash Reserve Ratio (CRR) with the RBI. Some co-operative banks have not all are scheduled commercial banks.

The core banking operations include:

i. *Financial Transactions:* The bank will have the ability to pay bills and do transfers as part of the financial transactions handled buy the system. The bank may choose to make available only some of these financial transactions based on business requirements. In some countries the financial institutions may be required to obtain regularly approval.

ii. *Loan Origination/Application Processing:* The Internet banking initiative will provide a convenient interface for customers to apply for loans from their homes. Customers can look at the details of the available and the related facilities available.

iii. *Trade Finance:* The Trade Finance application offers the bank's corporate customers interactive access and connectivity though the Internet in a secure manner. It allows the bank to set-up a letter of credit application on its home page on the World Wide Web.

The present banking system can be classified as follows:

Public Sector Banks

- State Bank of India its 7 associate banks called the State Bank Group
- 19 Nationalized Banks
- Regional Rural Banks sponsored by Public Sector Banks.

Private Sector Banks

- Old Generation Private Banks
- New Generation Private Banks
- Foreign Banks in India
- Scheduled Co-operative Banks
- Non-Scheduled Banks

Co-operative Sector Banks

The co-operative banking sector was developed in the country is supplement the village moneylender it comprises:

- Central Co-operative Banks
- State Co-operative Banks
- Primary Agricultural Credit Societies
- Land Development Banks
- Urban Co-operative Banks
- State Land Development Banks.

Development Banks

Development Banks are those financial institutions, which provide long-term capital for industries and agriculture, namely:

- Industrial Finance Corporation of India (IFCI)
- Industrial Development Bank of India (IDBI)
- Industrial Credit & Investment Corporation of India (ICICI)
- Industrial Investment Bank of India (IIBI)
- Small Industries Development Bank of India (SIDBI)
- National Bank for Agriculture & Rural Development (NABARD)
- Export-Import Bank of India
- National Housing Bank.

Customer Relationship Management in Banks

Traditionally, banking was "personal" where the customer knew the bank employee and vice versa. By tracking the previous business done by the customer, the employee could anticipate his her needs. The main bondage is the relationship the customer enjoys with the bank—the closer

the customer feels to the bank, more are his or her chances of remaining as the "future customer".

But things have changed a lot over a period of time. We are now in a situation wherein newer technologies contribute to lack of personal touch and a customer can be lured by big financial institutions somewhere at the other end of the world by providing services better than any other local bank.

Offering the right product to the right customer at the right time through the right delivery channel is the basic concept of CRM. CRM is driven by banks' realization that they can no longer expect to own their customers. While some are trying to own pieces of customer relationships, very few have the ability to deliver a comprehensive package of services under one umbrella. The primary goal is to uncover cross-selling opportunities and provide more customized services to retain customers. As a result, bank want a better understanding of how much of their customers' financial business they are actually handling and how many products they are selling to these customers.

In real terms, CRM can be implemented only if proper infrastructure is created. To implement this system, a bank needs to have an Apex Level Marketing and Business Intelligence at the corporate level. Most of the banks today are concentrating publishing their products and services and not concentrating on CRM. In CRM, a bank must know the value of customers. Therefore, the introduction of concepts like, Customer Profiling and Segmentation, Target Marketing, Wallet Share Analysis, Customers' Lifetime Value Analysis, Target Marketing, Campaign Analysis etc., become necessary. A bank will also be required to collect continuous feedback on the recall value and take necessary steps to improve the brand image. Unless as Business Intelligence system is set-up based on data warehouse or other repositories and a strong marketing team put in it would be difficult to implement a CRM system.

The trend of banks focusing upon re-engineering the existing services and introducing newer customer services gained momentum during the late nineties, close on the heels of globalization of the financial system. Thus, banks began to sell their customer online banking and consultation services to add both value to their services and to satisfy their customers. But even after selling a series of financial transactions to the customer on the Internet, the customer needs a good reason to remain loyal to the bank. Furthermore, at one end, the interaction between the bank and its customers has become less, and on the other, scores of financial institutions have burgeoned and are trespassing into the arena of banking. This includes introduction of new channels via newer technologies like Internet Banking, ATM, Phone Banking, and VRU (Voice Response Unit). As use of the Internet continues to expand, more banks are using the web to offer products and services or otherwise enhance communication with customers.

A significant improvement in customer relationship can be achieved when the technology provides the customers information, which he/she wants, the place, time and how he/she gets it. This would not only make him/her feel close to the bank but also enhance the bank-customer relationship. Only when the customer feels valued, will he/she reciprocate the relationship with loyalty. This bridges the gap and provides a virtual interpersonal connection—"an exceptional customer service".

For this, the bank might need to bring about a change in the existing business models. It can be accomplished in the following ways:

i. Dividing its customers in various categories like Retail, Small and Medium Enterprises and Corporates and further subcategorizing them for increasing the overall focus on customers. Or a bank simply can categorize its business into two parts—Retail and Corporate.

ii. The bank can categorize its customers in segments like Personal Finance, Business Finance, and Corporate etc., Banks can also add additional lines of business considering business on which they like to focus.

iii. A bank may also decide to follow a niche strategy. Some private sector banks indicate that they would concentrate solely on corporate sector. Some of the foreign banks may decide to set-up NBFCs to exclusively focus on niche areas by taking on activities like commercial investments, business and management consultancy, leasing and financing.

iv. A bank can adopt "Universal Banking". One of the large public sector banks is in the process of transforming itself into financial supermarkets capable of dispensing all services and products including insurance.

Products and Services Offered to Customers

We also find that just as in the case of CRM, the product-needs and product-preferences of customers also undergo changes. Therefore, even to effectively implement customer segmentation based business model, it is necessary to refine the products and services. In this regard, it is not just sufficient to introduce cosmetic in the existing products and services to retrofit in various business segments. Thus, banks should clearly perceive the requirements of customers and come out with segment specific-products and services.

For introducing new products and services or pulling out obsolete ones from the market, it is necessary to have a proper system of business intelligence. This requires monitoring the competitors' moves on products and services front including quality and introduction of new services for which it would be worth be emulating foreign banks. By setting up a formalized system of receiving continuous feedback from customers, it will be possible

for the banks to develop a highly innovative product or services capable of creating a better brand for itself.

Growing expectations of the customers drive business strategies for the banks, thereby causing changes in the banks' operations. In line with the maturation trend in banking industry, the thrust of business strategy has been shifting from what is termed as 'Product based' to 'Customer focused' approach. Customer centricity has already become the focal point in banking operations.

Switching over from plain products and services to offering tailor-made products to individual customers, advisory services, availability of preferred delivery channels, walking ATMs and OSAs on constant move to deliver banking services at doorsteps, bundled products and services offer, market risk mitigating products, demonstrates how be banks have been fine-tuning their business strategies towards achieving customers centricity and convenience.

Most of the above mentioned products and operations are technology-based and do not involve a human touch in operations. Nevertheless, the importance of human touch in operations is evidenced by the fact that steps to improve branch operations are also being simultaneously carried out.

Branches are the basic delivery channels of products and services. Hence, the counter services at the branches should be fine-tuned in relation to customer centric business model. Under any technology-enabled transformation, branches are required to focus on sales and services. This is possible only if all the back office functions from branches could be taken away and put at a central place. In this context, the system of regional processing centre, and centralized system of loan processing become extremely important. Functioning of Universal tellers and relationship managers at the grass roots level can help in setting up a customer centric model. The basic rule is that all the banking requirements of the customers should be taken

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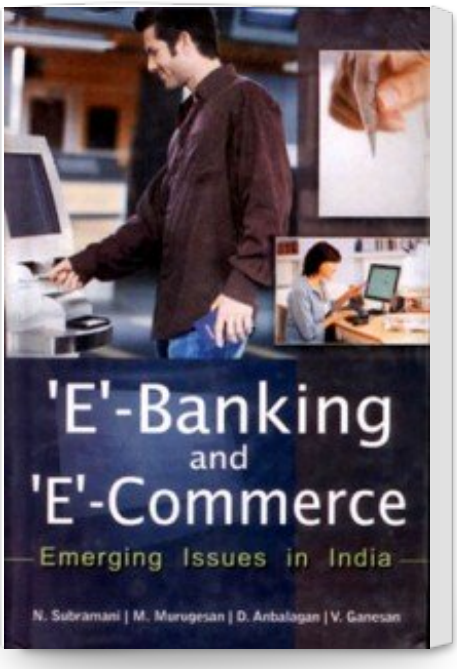

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