



# Pacific University Journal of Social Sciences

Vol. 5

Issue 1

November, 2020

Udaipur

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# ELECTRONIC BANKING IN INDIA: CHALLENGES AND FUTURE PROSPECTS

## Abstract

The Financial sector and the Banking system constitute a very important part of any country's economy and play a crucial role in the development of their economy. In reality, a strong banking sector acts as the lifeline of an economy. Thus, it is not wrong to say that the present and future of an economy depends to a large extent upon the success and development of banking industry of that economy. In today's era of information and technology, it is not possible for an economy to attain the target of sustainable development by following traditional banking methods. As such, it has become mandatory for all the countries of the world to increase automation in their banking industry. The transformation in the banking system from traditional banking to modern banking started with the use of electronic fund transfer (EFT), automatic teller machines (ATM), and direct bill payment. At present, the modern banks operate in a highly liberalized and globalized manner. Customers have also accepted this revolutionary online banking comfortably through their growing awareness and education. Today many people are moving towards e-banking as they find it very easy and comfortable to manage their accounts from their place, at any time & at a very nominal cost or charge. At present, most of the banks such as AXIS Bank, ICICI Bank, Dena Bank, State Bank of India, HDFC Bank, Union Bank, Bank of India etc. are offering internet banking. The present study aims to examine and highlight the challenges faced by the Indian banking sector in implementing E-banking and the future prospects of E-banking in India.

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**Keywords :** E-Banking, RTGS, ATMs, Internet, Information Technology, EFT

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## Introduction - Concept of E-banking

E-banking or net Banking stands for Electronic banking. It is a system which is employed by the banks to supply their services and products to the customers. It is a method by which banks deliver their services and necessary information to individual customers via different delivery platforms or electronic channels such as ATM, internet, cell phones etc. To avail E-banking services, a consumer may use different terminal devices such as a mobile phone or a personal computer with browser or a digital television. Net banking or on-line banking, allows customers of the traditional banks to perform their routine transactions, such as account transfers, balance enquiries, bill payments and stop-payment requests from their home or office, and some banks even offer online loan and credit card applications forms. The system enables individual customers to perform various banking activities or banking services from different sites like their home, office and

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other locations via internet based secured networks or using Electronic technology. Online Banking or E-based banking is also known as virtual banking, Cyber banking, home banking and includes various banking activities that can be conducted from anywhere.

E- banking was introduced in India in 1991 instantly after the recommendations of Narsimham Committee. It is considered one of the most popular and latest technological wonder in field of banking which has given the banking sector a new dimension for growth. E-banking has helped the banking industry in several new ways but the biggest advantage that it has imparted to this sector in developing countries especially country like India is improving customer relations. E- banking has created a very healthy competition among the private and public sector banks. Introduction of IT in the Indian banking sector has made E- banking more reliable and sophisticated. Because of e- banking, now the remote areas of India are also connected to all bank's branches in metropolitan cities.

In order to offer the Indian consumers a world class internet banking facility, Indian banks do innovation perpetually. At present, the key focus of Indian banking sector is especially towards the necessity of innovation within the field of e-banking and on highlighting the available market opportunities, advantages and current challenges long faced by banking sector to boost up E-banking in India. Innovations in the Indian banking sector began with the introduction of liberalization and globalization process in 1991 and as a result of this innovation, E- Banking came into existence. After opening up of Indian economy in the year 1991 many foreign banks entered the Indian economy and also brought new technology with them. The growth and development of the Internet and Information Technology infrastructure has made the whole banking sector sound and more effective.

In India, E- banking is gaining popularity as an important distribution channel to provide banking services. E- banking has drastically and rapidly altered the client banking method by providing different services like cash deposits, cash withdrawals through electronic means. Customers are able to do their banking

transactions very fast with the help of technology. Due to I.T revolution, the number of electronic transactions is increasing day by day and the world has emerged as a cyber world where each and everyone is connected through internet. E-Banking has also made the mobility of foreign funds and investment possible which has turned the world into a global market and this market is growing so fast that it has almost abolished the effect of national boundaries.

I.T innovation in the banking sector in form of E-banking has introduced new business paradigm in country like India. In past three decades, the operational efficiency of Indian banks has increased many folds, now the time taken by banks in performing different transactions has been reduced and with this advancement, competition among the banks has also increased. Every bank is trying to use as much latest technological innovations as possible in order to facilitate its customers.

Net banking is a web-based service which permits the authorized and approved customers of banks to access their account information. E-Banking permits its customers to log into the bank's website or app with the assistance of identification and personal identification number (PIN) issued by the banks. The bank verifies the user and provides access to the requested services.

The range of services and products offered by each bank through the cyberspace differs widely. The popular services provided by E-banking are mobile banking, ATMs, tele - banking, net banking, anywhere and anytime banking etc. Technology adoption by banks has created the banking industry more of a fixed cost, capital intensive industry from a variable cost, labor intensive industry. The thought and concept of e-banking continues to be evolving, because it still involves heap of innovations taking place on a daily basis. E-banking offers several opportunities to the Indian banking industry how ever it conjointly involves many challenges.

E-banking came into being in 1920s in USA and UK. The first country in the world to initiate E-banking was Finland from UK. In India, ICICI bank was the first bank to take a lead in E-banking as early as 1997 under the brand name Infinity. E-

banking allows customers to do financial transactions through a secured website operated by the institution, which could be a retail bank, virtual bank, credit union or a building society. It also includes RTGS, NEFT, ECS, electronic cards (credit and debit cards), Cheque truncation, ATM, POS (Point of sale), Tele banking, Internet banking and Mobile banking services provided by scheduled commercial banks (SCBs) in India.

Banks face several challenges while implementing E-banking, but E-banking offers many opportunities as well. Online banking is gradually replacing the traditional banking practice and the Indian banking industry is now witnessing new emerging trends of E-banking. The Banking sector will need to master the new business model by building management and customer services. Banks should put in intensive efforts to render better services to their customers. Online banking has a lot of advantages which add value to customers satisfaction in form of better quality of service offerings and at the same time enables the banks gain advantage over the competitors.

To promote E-banking among the users, banks must try to enhance the financial literacy of the users by running several programs related to increasing the awareness of internet banking. Running such programs is the need of the hour. Most of the banking clients or customers are aware about the e-banking services offered by their banks. Traditional model of banking i.e. branch based banking was widespread till 1990s, and after that it has been replaced by non-branch banking services.

## Review of Literature

Haq & Khan (2013) analyzed the challenges and opportunities in the Indian Banking sector. The study showed that only 28 per cent banking clients were using internet banking. It observed that qualification in terms of education and income of the respondents were playing the role in the acceptance of online banking. The study suggested that it is the need of time that financial literacy of the users should be increased through various programs which should be run by banks to increase the awareness of internet banking.

Trivedi & Patel (2013) analyzed the problems faced by customers while using e-banking facilities in India. It observed that most of the customers were aware about the e-banking services offered by their bank. The study found that there is a significant difference amongst different problems identified while using e-banking services. It also found that some problems affect more and some problems affect less in use of banking services. It concluded that all the reasons are not equally responsible for not using e-banking services.

Adholiya et al. (2019) while studying cyber security practices for e-banking revealed that security of transactions is a concern among users. In order to raise the level of confidence among users, awareness is mandatory and timely tips should be forwarded to users to ensure security standards. Even, it was also recorded that exposure to risk vary according to banks and users both.

## Objectives of the Study

- To study the challenges associated with E-banking.
- To study the Future Prospects of E-banking
- To study the current financial innovations in Indian banking sector.

## Research Methodology

The information and data used for the study is secondary in nature and has been obtained from RBI (Reserve Bank of India) bulletin, annual reports of RBI and, Report on trend and progress of banking in India, various reputed journals, newspapers, white papers and websites of RBI.

## Current Scenario of Internet Banking / E- Banking in India

Electronic Banking has today emerged as a vital part of the entire Indian banking industry. To some extent, the idea of e-banking is of latest origin in India. A Committee was created to study and examine varied aspects of Internet banking. The committee had paid enough thought on three



most significant areas of Internet banking, Security issues and problems, legal issues and regulatory issues. Recommendations and guiding principles of Operating (Working) committee were acknowledged by Reserve Bank of India and accordingly plans were issued to banks to employ internet banking in India. The government of India created and implemented IT Act, 2000, with effect from 17th Oct.' 2000.

### **Need and Benefits of E-banking**

Banking Industry has witnessed many innovations in last three decades and one of the major among it is e- banking which is the result of information and technological revolution. These IT revolutions changed the entire working of banking sector because e- banking gave birth to new type of financial services which were created by the intersection of traditional retail financial services with the internet. E-banking provides basic banking services or transactions through web. These services include-

- Checking and savings accounts
- Consumer loans and mortgage financing.
- Credit and debit cards.
- Private banking services.

Introduction of e- banking has created a very convenient and time saving banking system. E-banking primarily focuses on offering the bank clients convenient and secure ways of doing on-line monetary /financial transactions like automatic bill payments from the bank account, automatic deposits, obtaining on-line loan and many more. The method of use of e- banking is very simple and transparent. While using E-banking, customers contact their bank through the website and then place in their user id and password at the banks web site to get full access to their account. They just ought to have a secure Web browser. This online banking method requires the use of net browsers that support 128-bit encryption, that protects consumers by scrambling all the personal information transmitted between the consumers personal computer and the bank. This ultimately leads towards improved client satisfaction.

### **Current Financial Innovations in E-Banking in The Indian Banking Sector**

The innovations in the banking sector gave birth to new product design, and introduced different electronic systems and varied ways of doing on-line financial transactions. All this gave a hottest name to today's banking industry that is Innovative banking. Innovation banking mainly stresses on client convenience and satisfaction. The main reason behind bringing innovation in the current banking system was to provide the customer with better services with help of technology and during this race of technology development internet served as the foundation stone for innovation banking.

The introduction of net banking brought drastic changes in the Indian Banking Industry like higher efficiency, control of operations, reduction in cost due to replacement of paper based and labor intensive ways by machine controlled and automated processes that cause higher productivity and profitability. Innovations were required in the Financial sector due to the assorted challenges and flaws that were prevailing in the traditional banking system and after the introduction of innovation in banking products and services these challenges were overcome and this entirely modified the banking philosophy.

#### **A. Automated or Automatic Teller Machines**

It is an electronically processed computerized telecommunication device that enables customers to complete their financial transaction like money withdrawals, mini statement of account, money deposit, PIN (personal identification number) change by using their ATM cards and report of the account's balance can even be received that too without the aid of any bank branch representative or teller. In other words, it is simple to use self service solution. To avail the ATM facility, customers need to insert the debit plastic card provided to them by the bank. The card is encoded with information on a magnetic strip. Different banks have different rules and limits for performing transactions through ATM. Example-Dena Bank maximum ATM cash withdrawal limit from saving account is 20 thousand per day.

## B Tele Banking

Telephone banking is second kind of e- banking innovation as this service facilitates the banks client to perform a range of financial transactions over the telephone, without visiting any bank branch or automated teller machine. Moreover the timing of Telephone banking is much longer than branch timing, and even some of the financial institutions offer 24-hour service for their customers.

Various kinds of financial transactions the customers may transact through their telephone banking are:

- Obtaining account balances
- List of latest transactions
- Electronic bill payments
- Funds transfers between the customers or perhaps in another's accounts.

One of the most important advantage of telephone banking is that it has minimized the transactions handling cost by reducing the requirement for customers to go to a bank branch for non-cash withdrawal and deposit transactions.

## C. Smart Card

It is the pocket-sized plastic card embedded in form of a computer chip? It is additionally referred to as a chip card, or integrated circuit card (ICC). The microprocessor or the silicon chip is below the contact pad of the smart card on one side of the card for security. The microprocessor replaces the usual magnetic stripe present on a debit or credit card. The host computer and card reader actually take all the information from the microprocessor. The silicon chip in these cards enforces access to the information on the card and is capable of performing transactions like money withdrawal, money deposit and balance inquiry etc.

## D. Debit Card

is a plastic payment card that may be used instead of cash while doing purchases? Debit card operates more like a personal check or cash. It is also known as a bank card or a check card and looks similar to

credit cards or ATM (automated teller machine) cards. Debit cards differ from credit cards as in case of a credit card the payment is to be done later, but in case of a debit card the payment needs to be done immediately. When a customer uses a debit card, his/her money is immediately deducted from his account. When a transaction is performed by using the debit card, the money comes directly from the user's bank account.

## E. E-cheque

is one of the recent innovations done in the field of e- banking. It is a new payment method for those customers who do not possess debit or credit card as a back- up payment method. In the e- cheque method, the payment is made directly from customer's bank account. A customer can send an e-Cheque only if his bank account is the only payment method attached to his bank account. But if customer has a back-up payment method he would not be able to send e-Cheques.

## F. Direct Deposit

is a facility by which the account holder or payer deposits the money directly into the payee's bank account. Also known as direct credit, Direct deposits are mostly used for the payment of salaries and wages and other kind of bill payments directly in others accounts. Generally, Direct deposits are made through electronic funds transfers using online, mobile, and telephone banking systems but can also be affected by the physical deposit of money into the payee's bank account.

## G. Electronic Bill Payment

is a kind of e- banking innovation that allows customers of a bank or financial institution to transfer money through online mode to the creditor or vendor like payment to a department store, public utility or an individual? These payments are made electronically in the form of direct deposit through the national payment system, operated by the banks individually or in conjunction with the government.

## H. Electronic Check Conversion

It is a method in which check is used as a source of

information. Information like check number, account number is used to identify the financial institution. This information is then used to make a one-time electronic payment from customer account—an electronic fund transfer.

### **I Stored-value Card**

A Cash value stored card is a payment card that has monetary value stored in the card itself and not in an external account maintained by a financial institution. Stored-value cards are different from credit cards as in credit cards the credit limit is set by the bank but in cash value stored card money is deposited in the card. Another difference between stored-value cards and debit and credit cards is that debit and credit cards are usually issued in the name of individual account holders but stored-value cards are usually anonymous, like gift cards. Stored-value cards are prepaid money cards which may be disposed off once the value is used, or the card value may be topped up.

### **Initiatives Taken by The Government of India For Developing E- Banking**

RBI and the Indian Government have taken several initiatives to promote and encourage the applications of E-Banking. The GOI initiated The Information Technology Act, 2000 w.e.f. October 17, 2000 to give legal recognition to electronic transactions and supplementary means of electronic commerce. RBI has been doing constant monitoring and analysis of E-Banking legal requirements, to further ensure that financial solidity of Nation does not get influenced by E-Banking Challenges.

Dr. K.C. Chakrabarty Committee comprising of members from IIM, IDRBT, IIT and Reserve Bank of India framed a Vision Document 2011-17, which presented an analytical road map i.e. strategy to recognize and enhance the relevance of IT in the banking sector [RBI (2011), IT Vision of Reserve Bank of India 2011-2017]. RBI had put in several endeavors to make the Payment System more safe and sound. The commercial banks have been recommended by RBI to make its safety feature stronger in e-banking. RBI is of the view that applying alternate channels of payments like

Mobile Banking, ATMs puts extra responsibility on Banks to guarantee safe & secure transactions. (RBI Annual Report (2013))

The Reserve Bank of India has established the National Payment Corporation of India (NPCI) which began operating from year 2009 to oversee Retail Payment System (RPS) in India. RBI has permitted National Payments Corporation of India (NPCI) to enhance the number of mobile banking services and the IMPS (Immediate Payment Service) channels like ATMs, internet, mobile etc. Besides this, NPCI is putting numerous efforts to bring in more mobile network operators with an intention to make the mobile banking services accessible through a common platform. (RBI Annual Report (2013)).

The Basel Committee formed for conducting Banking Supervisions (2001) highlighted the risk management principles for electronic banking. The committee primarily stressed upon the need to tailor the existing risk-management plan to the electronic banking structure.

### **Challenges Associated With E-banking in The Indian Banking Industry**

#### **A. Security Issues**

The biggest challenge that the Indian Banking sector faces while providing net banking is the Safety and security concern. A Large proportion of customers resist adopting e-banking facilities due to security Risk and other related aspects. According to the Report generated by IMAI (2006), 43% of internet users are not in favor of using internet banking in India because of security risks. Thus, it is a primary challenge for banks to convince the consumers on this aspect, to further lift up the online banking usage.

#### **B. Privacy/Confidentiality Risk**

Risk of revelation of confidential details or not to be disclosed information & chances of identity theft is one of the major reasons that restrain the consumers while opting for electronic banking services. A large no. of consumers is of the perception that by adopting internet banking services their identity would be at threat. Consumers fear that bank may intervene into their

confidentiality and privacy by using their information for marketing and other consequential purposes without agreement of consumers.

### C. Fear of Cyber Crime

With the rapid growth of information technology and other internet services, cybercrimes are increasing day by day. Bank customers fear losing their confidential information and becoming the victim. Cyber security has become a huge challenge for the banks as well as the government. Thus, the government needs to take strong and concrete action by making proper laws and executing them to fight against the fraudsters, cyber criminals, hackers and working on the loopholes.

### D. The Trust Issue

Another major obstacle to electronic banking is the trust for net banking among the customers. Traditional banking is often used by customers because they lack confidence in the online bank transactions. They have a mindset that online banking transactions involve security risk which might cause different frauds and scams. While using online banking services, the consumers are always doubtful in their minds about the successful completion of that transaction till the time a confirmation message is received.

### E. Customer Understanding

The Indian consumers have a very low-level knowledge or understanding of e-banking. Banks have not been able to advertise the entire information about the use, benefits and facility of online banking. Therefore, one of the most crucial hurdles in the expansion of electronic banking is the less awareness of new technologies among customers.

### F. Less Internet diffusion in India

There is no doubt that Internet has made people's life easy and fast, yet there is less internet penetration in India. The online banking channel has gone through tremendous changes over the years. E-Banking use in India has raised from 1% in 2006 to 7% in 2011 while in North America in the

year 2011, 60 percent of the essential transactions in banks were executed through online channels. Thus, understanding and availability of internet is still one of the critical confronts that exists in Indian context. According to the report generated by IAMAI 2006, approximately 22% of internet users lack knowledge about how to transfer funds online. Thus, the penetration of internet, and customer knowledge related to internet are the major Challenges for the Indian banking sector.

### G. Poor Infrastructure

To expand its geographical reach and for its effective implementation, Internet Banking needs consistent support of efficient infrastructure. Banks have not been able to expand their E-banking services to semi urban and rural areas due to poor Infrastructural facilities in terms of indecent set up, electric connection, poor satellite, internet and broadband connectivity.

### H. Operating Conditions

India is a country of multiple cultures and multiple languages, but this makes operating methodology for online banking a bit difficult as displaying Instructions or Guidelines in Different languages is a cumbersome task. Though, technology has found out a solution to this issue, but, Illiterate people are still not covered under this solution and also ATMs can't guarantee identical operating levels for all people resulting in high wear & tear.

### I. Technological Illiteracy

In case of Mobile Banking, many mobile users from lower class are unable to understand the technical rules and regulations and as a result, they find them difficult to operate. Consumers generally purchase Handsets according to their budget and those Handsets sometimes offer the features which are unsupportive as far as Mobile Banking is concerned and this becomes a limitation in the execution of e-banking.

### J. Training the Employees

Imparting training to private sector bank employees is an easier task, as the private sector bank employees are young, dynamic computer



literate employees, but at the same time, training the public sector banks employees is a complex task as such staff is comparatively lesser computer literate. In spite of this fact, they have been able to do influentially well after functioning on it for over a decade now.

#### **K. Customer Education**

In private banks, the E-banking facilities were being made accessible to customers since early days. But it is quite difficult to persuade the customers of old public sector banks towards the utility of E-banking programs. Imparting Education among customers formally with respect to e-banking is a difficult task. Considering this, banks opted for providing monetary inducements like a Free Debit card, Free Net Banking facilities, providing constant and timely information to customers regarding Monthly Statement of their accounts on E- Mail, etc., to switch customers to these rising services of banking.

#### **L. Restricted Business**

Another challenge for e-banking is that all the banking transactions cannot be executed online or through other electronic mediums; for few services like deposits and withdrawals, one has to approach Banks physically. However, some of the banks have automated their method and their customers (front end) but still numerous follow traditional process (back end). This in a way confines the customers due to limited awareness and technical hurdles.

#### **M. Cost of Technology**

The Initial Cost of investment related to E-banking is high in terms of cost of personal computers and other Equipments required to perform the electronic Banking transactions. The maintenance cost of all these devices such as modems, routers, entire IT set up is also large.

### **Opportunities Related to Internet Banking**

It is an accepted fact that e-banking in India faces many Challenges, but at the same time, numerous opportunities available for development of E-

Banking in Indian context cannot be ignored.

#### **A. Escalating No. of Internet Users & Computer Literacy**

Success of Electronic Banking principally depends upon how much acquaintance people have with internet technology, so that internet banking services can be smoothly implemented. Thus, the increasing no. of internet users in India could be a very grand opportunity and this should be utilized to the maximum extent by influencing additional internet users to use on-line banking services. Approximately 243,198,922 Indians were using internet as on July, 2014 and this number is continuously increasing by roughly 3.5 crores every year on an average. The Rate of growth of internet users is calculated 168 % since 2010. Statistical data provided by IAMAI (The Internet and Mobile Association of India). Com Score Report, 2013, explicit that India now attains world's third position in terms of No. of Internet user after U.S., China. [The Hindu (2013)].

#### **B. Untouched Rural Markets**

India's untapped market for banking sector extends to 70% of the total population of India, which is considered a vast scope for development of e-Banking in India. Most of the urban areas have access to banking services but only a small number of big villages have the banks. Therefore, e-banking must expand its geographical reach in all the remaining villages because large proportion of Indians are still living in rural areas.

Hard work or Initiatives taken by government agencies for financial literacy

Internet Banking and inclusive growth is highly influenced by financial literacy. Usage of net Banking or traditional Banking among customers is determined by their education level. IRDA, RBI, SEBI, Government authorities and various other financial institutions have taken many initiatives & pains for promoting financial literacy and encouraging the use of internet banking. E-banking and its services have been included in school curriculum with the purpose of making students aware about how to use it. Knowledge to home makers, managers and retired people is also imparted to increase the usage of electronic banking. (RBI Report (2012b)).

### C. Competitive Advantage to Banks

Another opportunity with banks is in terms of competitive gain enjoyed by them by adopting e-banking. The carrying out of e-banking is profitable for banks as it shrinks cost to the banks, improves the efficiency in customer relations, and expand the geographical reach of the banks. Thus, competitive gain to Banks because of e-banking provides them opportunities to deal with their e-banking business in an effective way.

### D. Opportunities for Customers

E-banking offers vast opportunities to the Indian banking sector in terms of its increased use by Customers. Widespread Banking Consumers are greatly affected by the progression of internet banking services. Customers can control their account from office or home, and can also shell out bills using net banking. Usage of credit/debit card has also increased. Thus, by exploring the e-banking services, consumers can have 24X7 access to the banks.

### Conclusion

With the passage of time, the Concept of E-Banking got consideration in the Indian Economy. At Present, E-Banking services have been effectively implemented by most of the public and private sector banks as it is profitable for Consumers as well as banks. The Role of information and technology has been exceptional in endorsement of e-banking. Many financial innovations like ATMs, credit cards, RTGS, debit cards, mobile banking etc. have completely changed the face of Indian banking. But still there is a need to have more innovative solutions as even now e-banking is facing many challenges like Risks regarding security, privacy, lack of knowledge among consumers about e-banking, unsupportive infrastructure, Low level of computer literacy among existing staff etc. These challenges cause a very serious obstruction in the implementation of e-banking facilities. Banks should try to target mainly those customers whose usage of computers, internet and other technology products is relatively on the higher side.

Government of India has synchronized with many

public sector banks & financial Institutions to create a more reliable, safe and protected E-banking. The Government of India also highlights the opportunities available in the country for the development of e-banking. Key opportunities include untapped rural markets, competitive advantage held with the Banks, efforts initiated by government of India, etc. Compared to overseas banks, online services presented by domestic banks still have a vast scope for improvement and extension. Indian Banks require a very supportive and efficient infrastructure to reach masses. Though Internet Banking has been accepted by Indian consumers, yet its growth would certainly take time. Government is motivating banks to conduct advance studies to examine the various forces which direct the consumer intend to take up internet banking services.

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