Vol.1 No.1 July 2013 ISSN : 2321 – 4643

PRESENT SCENERIO OF ON-LINE BANKING SERVICES IN INDIA

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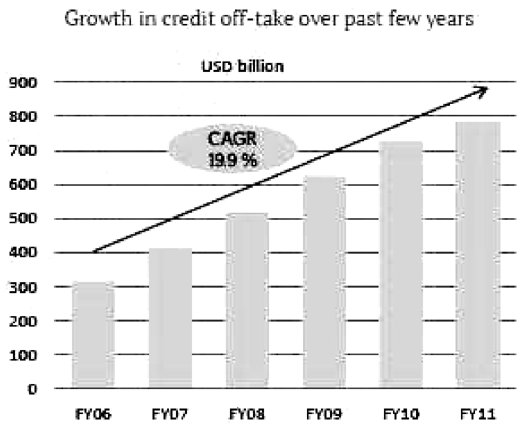
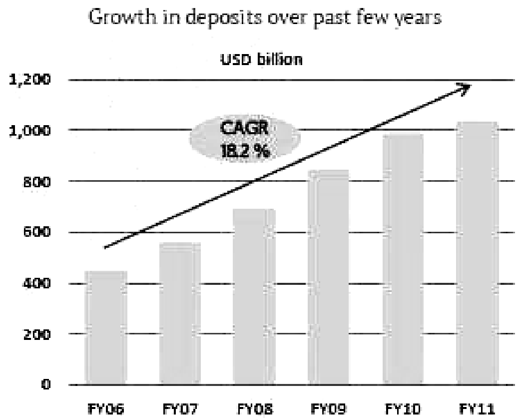
Introduction

The Indian banking industry (US$ 1.22 trillion) has made outstanding advancement in last few years, even during the times when the rest of the world was struggling with financial meltdown. India's economic development and financial sector liberalization have led to a transformation of the Indian banking sector over the past two decades. Today Indian Banking is at the crossroads of an invisible revolution. The sector has undergone significant developments and investments in the recent past. Most of banks provide various services such as Mobile banking, SMS Banking, Net banking and ATMs to their clients. Indian banks, the dominant financial intermediaries in India, have made high-quality progress over the last five years, as is evident from several factors, including annual credit growth, profitability, and trend in gross non-performing assets (NPAs). While annual rate of credit growth clocked 23% during the last five years, profitability (average Return on Net Worth) was maintained at around 15% during the same period, while gross NPAs fell from 3.3% as on March 31, 2006 to 2.3% as on March 31, 2011.The Indian banking sector is a mixture of public, private and foreign ownerships. The below table highlights top 10 banks which contributed 58% share of the total credit as on March 31, 2011. The State bank of India has recorded highest market share. The Net Interest Margin of HDFC Banks is 4.2% which is highest among others.

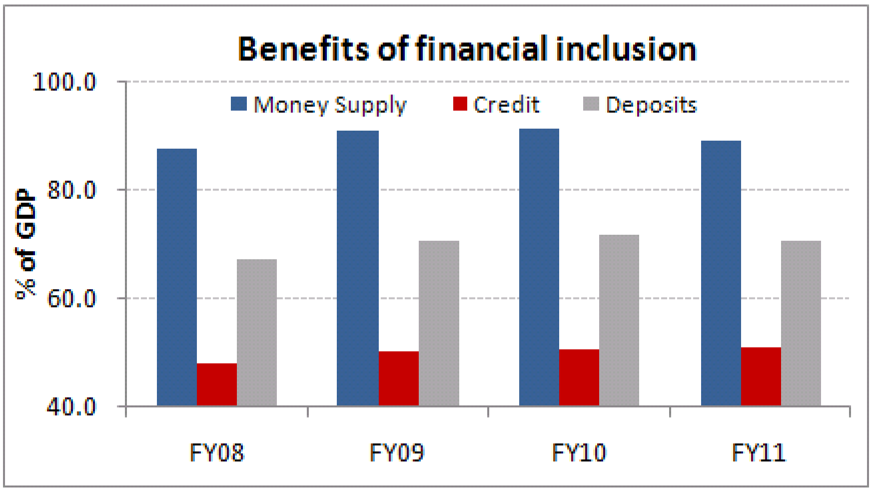
Name of Bank	Credit Portfolio (Rs.Bn)	Market Share(%)	NIM(%)	Tier I Capital(%)	RONW(%)	Gross NPA(%)
State Bank of India	7567	18	2.9	7.8	13	3.3
Punjab National Bank	2421	6	3.5	8.4	24	1.8
Bank of Baroda	2287	5	2.8	10.0	24	1.4
ICICI Bank	2164	5	2.3	13.2	10	4.5
Bank of India	2131	5	2.5	8.3	17	2.2
Canara Bank	2125	5	2.6	10.9	26	1.5
HDFC Bank	1600	4	4.2	12.2	17	1.1
IDBI Bank	1571	4	1.8	8.1	16	1.8
Axis Bank	1424	3	3.1	9.4	19	1.1
Central bank of India	1297	3	2.7	6.4	18	2.2

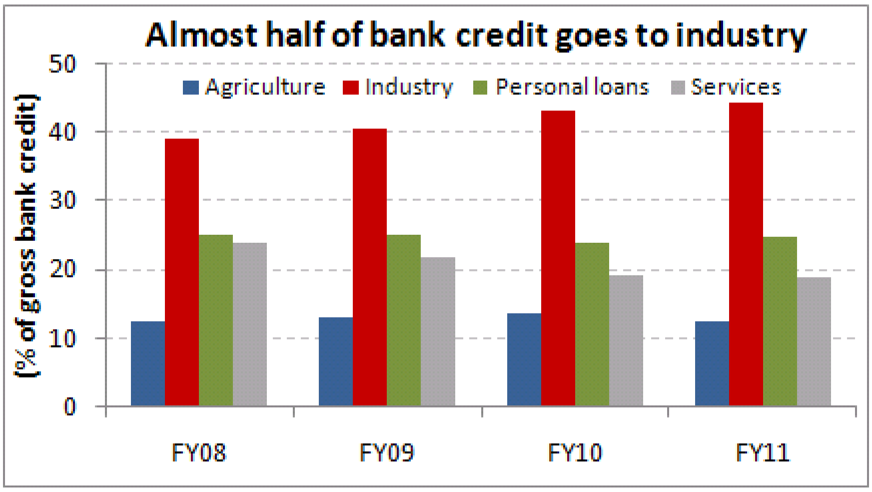
Source: Annual Report, ICRA





The Credit off-take has increased at a CAGR of 19.9 % over FY 06- 11. The Deposits have grown at a CAGR of 18.2% over FY 06-11 on account of strong growth in saving account. The net NPA has increased from 1% in FY 2008 to 1.12% in FY 10. The High interest rates and lower economic growth has impacted the repayment capacities of borrowers and hence pushing up the NPAs of banks. The net NPA decelerated from 1.12% in FY 10 to 0.97% in FY 11. Indian banks enjoyed higher levels of money supply, credit and deposits as a percentage of GDP in FY11 as compared to that in FY10 showing improved maturity in the financial sector. Credit growth remained high in the first half of FY11 on account of increased demand from industry and the service sector. Personal loans grew significantly by 17% during 2010-11 as compared with 4.1% during the previous year.





Business Division

Retail banking - Loans to Individuals (Auto loan, Housing Loan, Education Loan and other personal loan) or small businesses.

Wholesale banking - Loans to Mid and Large corporate (Working Capital loans, Project finance,Term loans, Lease Finance)

Treasury Operations - Investment in Equity, Derivates, Commodities, Mutual Funds, Bonds, Trading and Forex operations

Other Banking Businesses - Merchant Banking, Leasing business, Hire purchase, Syndication services etc.

SWOT Analysis

STRENGTHS	WEAKNESSES
• Valuable contributor to GDP • Regulatory environment • Government Support	• Increasing NPA • Low penetration • Lack of product differentiation
OPPORTUNITIES	**THREATS**
• Modern Technology • Untapped Rural Market • Globalization	• Unorganized money lending market • Customer dissatisfaction • Rise of monopolistic structures

Porter's Five Forces Model

Banking is mainly a client oriented business. A high-quality of services to the client is crucial for the growth and stability of any bank. A wider distribution and access of financial services helps both consumers and producers to raise their welfare and productivity. Such access is especially powerful for the poor as it provides them opportunities to build savings, make investments, avail credit, and more important, insure themselves against income shocks and emergencies. To survive in an increasingly competitive environment, bank need to come up with various facilities like Internet banking, mobile banking etc. With the onset of mobile banking, the industry finds itself at the threshold of the next major technological leap.

***Buyer Power* - High** bargaining power of customer's on account of banks renders uniform services to the clients. Now a day's almost all banks would like to provide requisite information very easily by way to Internet, Mobile banking to the clients.

***Supplier Power*- Low** bargaining power of supplier's on account of RBI regulatory benchmarks. Banks have to meet numerous regulatory standards created by RBI.

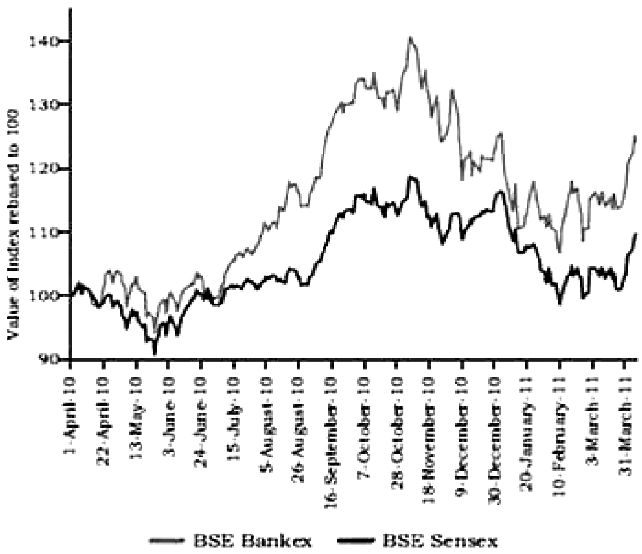
***Competitive Rivalry*- High** competition of account of number of prominent public, private, foreign along with cooperative banks.

***Availability of Substitutes* - High** menace from substitutes like NBFC's, Mutual funds, Government securities and T-bills.

Threat of new entrants - **Low** threat of new entrants on account of banking regulations. Before setting up of a new bank, it is essential to take the consent of RBI.

Performance

The empirical studies have found a strong relationship between economic growth and financial development. Finance plays an important role in the economic growth. The charts depict the performance of Bankex in last 10 year and Relative performance of BSE Bankex & BSE Sensex in 2010-11. The performance of Bankex accelerated during the period March 2002 to March 2008. The performance of bankex decelerated during March 2008 – March 2009 but thereafter it has shown increasing trend till March 2011. The four-month period (November 2010-February 2011) was marked by a consistent decline in all the indices caused by a number of global and domestic developments. The Sensex declined by 12.4%, while the Bankex Index declined by 18.3%. Some of the global factors, such as increase in crude oil prices and high commodity prices contributed to inflation in the domestic economy. High inflation coupled with low



growth rate in the Index of Industrial Production (IIP) and tightening interest rates has caused some concerns over the short-term economic growth, hitting the stocks in all the sectors,particularly those in the financial services sector.

In recent years, Deposit, which constitutes 78 per cent of total liabilities of the banking sector, has registered higher growth. The higher growth in deposits emanated mainly from term deposits. The accelerated growth in term deposit could be as a result of higher interest rate environment. The Deposit and Borrowings chart depicts that the dependence of foreign banks and new private sector banks on borrowings was relatively high as compared with other bank groups.

Global Banking Trends

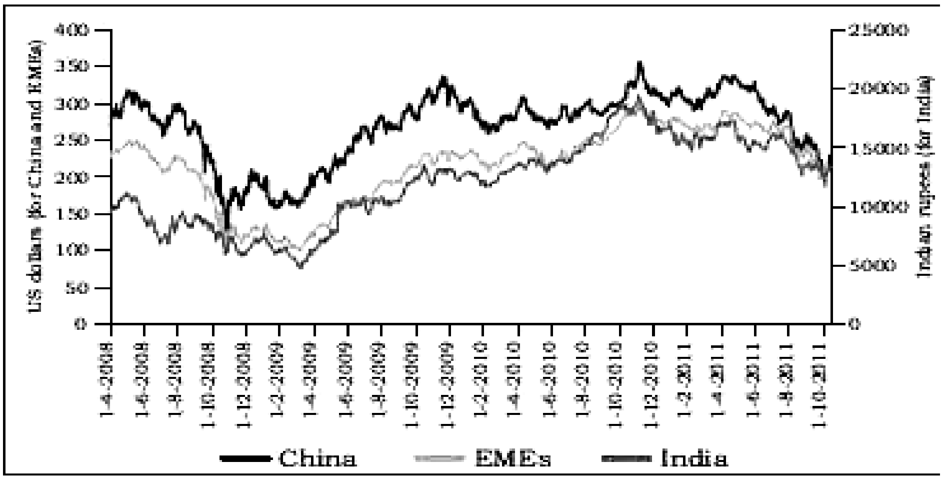
The Global financial crisis makes significant changes in the operating framework of banks. The performance of banks improves owing to strong lending growth and low credit losses. The present global macro-economic situation is differentiated by an unbalanced economic recovery across advanced and emerging economies, high levels of unemployment, inflationary pressures, and elevated levels of government debt. The Return on Assets (RoA), an indicator of banking system's profitability and soundness showed a moderate increase in the US and France in 2010. The RoA of US banks turned positive by 2010 after staying in the negative zone in 2008 and 2009; it showed a further increase in 2011. The RoA of Indian banks showed a modest rise between 2008 and 2010.

Return on Assets (ROA) of Banks

Country	2007	2008	2009	2010	2011*
Advanced economies					
France	0.4	0.0	0.4	0.6	...
Germany	0.3	-0.1	0.2	...	...
Greece	1.0	0.2	-0.1	-0.6	-0.3
Italy	0.7	0.3	0.2	...	...
Japan	0.3	-0.3	0.2	0.4	...
Portugal	1.2	0.4	0.4	0.5	0.5
Spain	1.1	0.8	0.6	0.5	...
United Kingdom	0.4	-0.4	0.1	0.2	...
United States	1.2	-0.1	-0.1	0.9	1.2
Emerging and developing economies					
Russia	3.0	1.8	0.7	1.9	2.3
China	0.9	1.0	0.9	1.0	...
India	0.9	1.0	1.1	1.1	...
Malaysia	1.5	1.5	1.2	1.5	1.8
Brazil	3.4	1.5	2.4	3.2	3.3
Mexico	2.3	1.4	1.5	1.8	1.6

Source-IMF,*Upto the period ending Mar 11, … Not Available

Bank Stock Indices in Select Economies



Source: Reuters, DataStream

Concern

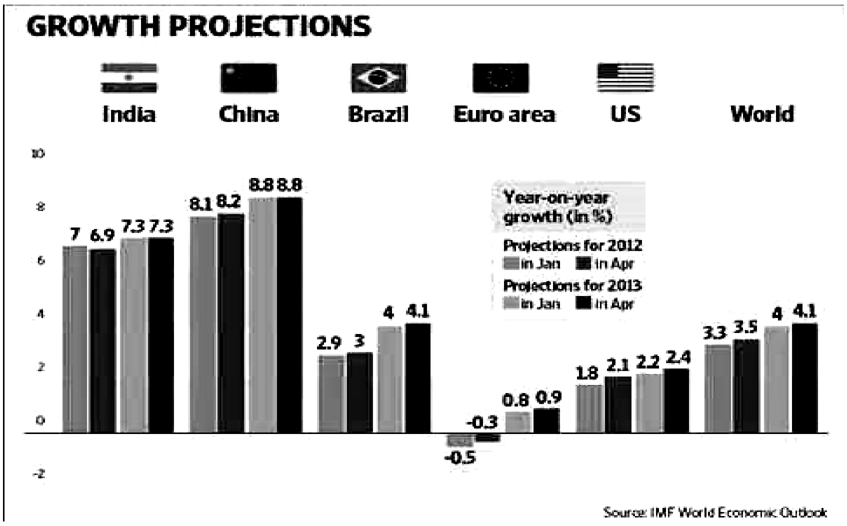
Indian economy is one of the fastest growing economies of the world. The economy with its varied geography and demography has specific requirements in order to traverse to the next orbit and attain its full potential. Banks enable to cope with finance requirement for few industries such as Infrastructure, Housing, Real Estate etc. India's infrastructural financing needs are not only huge but also vital. Traditionally banks have been the major source of infrastructure financing and their exposure to infrastructure is already high at 17 per cent. There are several major concerns which are noted below.

Intensifying competition

Indian banking industry has undergone qualitative changes due to banking sector reforms. Indian banking sector, which is dominated by state-controlled banks, has been facing formidable challenges. Due to this new emerging competition, Indian banks, especially PSBs, are trying their best to improve their performance and preparing to compete in the emerging global market. New private sector banks and foreign banks have more customer-centric policies, high quality services, new attractive schemes and computerized branches. All these services attracted more and more customers to their banks.

In this context, there is a need to examine the efficiency of public sector banks operating in India. Mainly, competition can intensify and banks will become more efficient. The transaction cost of customers could come down and a bank which is efficient, nimble and customer focused would always be able to do better than others. As a result of globalization, many new banks have entered the Indian banking industry, further intensifying the competition.

Increasing NPA



The asset quality of banks is one of the most important indicators of their financial health. It also reflects the efficacy of banks' credit risk management and the recovery environment. The Indian banks have shown very good performance as far as the financial operations are concerned. But Non-performing Assets (NPA) has caused some concerns. Despite write-offs, gross NPAs have continued to rise significantly. The new accretion to NPAs has been much faster than the reduction in existing NPAs due to lower levels of upgradation and recoveries. To improve the banks' ability to manage their non-performing assets (NPAs) and restructured accounts in an effective manner and considering that almost all branches of banks have been fully computerized, the Reserve bank of India in its Monetary Policy Statement 2012-13 proposed the following measures:

- To mandate banks to put in place a robust mechanism for early detection of signs of distress, and measures, including prompt restructuring in the case of all viable accounts wherever required, with a view to preserving the economic value of such accounts; and
- To mandate banks to have proper system generated segment–wise data on their NPA accounts, write-offs,compromise settlements, recovery and restructured accounts.

Despite these concerns, it is projected that the Indian banking industry will grow through leaps and bounds looking at the huge growth potential of Indian economy. High population base of India, rising disposable income, etc. will drive the growth of Indian banking industry in the long-term.

Regulation

The expected integration of various intermediaries in the financial system would require a strong regulatory framework. It would also require a number of legislative changes to enable the banking system to remain contemporary and competitive.

Economic Analysis

The Indian economy has recorded remarkable growth over the past decade. India's economic growth is expected to robust in 2012 and 2013. The International Monetary Fund (IMF) has pared India’s economic growth projection to 6.9% in 2012 from its January estimate of 7%, the only emerging economy for which it has done so. Banks provide capital formation to various sectors which directly help in the growth of Indian economy.

Social Analysis

Indian banking system has been progressing rapidly. There are ample opportunities for the banks to cover untapped rural market. Yet, banking facilities are not available in many rural areas. Many farmers are taking loan from moneylender at a very high rate of interest. Small-scale industries would remain important for banks. Changes could be expected in near future for unorganised sectors.

Technological Analysis

In recent time, Indian banking industry has been consistently working towards the development of technological changes and its usage in the banking operations for the improvement of their efficiency. With the application of new and improved technologies banks expected to reduce costs, time and give customer satisfaction. Core banking has changed the face of banking by offering value added services. Core banking applications helps to provide complete front and backend automation of banks. Technological developments would render flow of information and data faster leading to faster appraisal and decision-making. This would enable banks to make credit management more effective, besides leading to an appreciable reduction in transaction cost.

Internet banking or banking via the Internet can be considered a remarkable development in the banking sector. The ability to carry out banking transactions through the Internet has empowered customers to execute their financial transactions within the comfort of their homes and offices. In todays busy world, when people do not have much time even for personal work, Internet banking appears as a boon. Internet Banking helped give the customer's anytime access to their banks. But for Internet banking there is a requirement of a PC / Laptop with an Internet connection. Mobile usage has seen an explosive growth in economies like India. India has reached 893.84 million mobile subscriber mark (Source:TRAI, Dec 2011) for a population of 1.21 billion. With **Mobile Banking**, customer can check their account balance, transfer funds 24 x 7, bills payments, booking of bus / flight tickets, recharge prepaid mobile and do a lot more effortlessly and securely. Banking through cell phone benefits the banks too. It cuts down on the cost of tele-banking and is more economical.

ATM

(Automated Teller Machine) is electronic machine, which is operated by a customer himself to deposit or to withdraw cash from bank. ATMs reduce the work pressure on bank's staff and avoid queues in bank premises. ATMs are of great help to travellers. They need not carry large amount of cash with them. They can withdraw cash from any city or state, across the country and even from outside the country with the help of ATM.

Conclusion

The financial sector reforms have brought about significant improvements in the financial strength and the competitiveness of the Indian banking system. The prudential norms, accounting and disclosure standards, risk management practices, etc are keeping pace with global standards, making the banking system resilient to global shocks. In the recent past, the Indian banking sector has undergone significant developments and investments. In this sector, there are huge opportunities and numerous challenges. Money laundering is a growing menace and it not only poses serious threat to the stability and integrity of the financial system but also to the sovereignty and safety of nations worldwide. In the coming days, challenges before banks would primarily lie in saving themselves from the growing threat of money laundering.

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