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Managerial Implication of Cyber Banking Bottlenecks in the "e' Era

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Banks are nowadays trying to advance their ways of providing financial services to their demanding customers. This has prompted to differentiating of products and services which in return increases competition among providers. Some institutions are underrating the challenges posed by new technology adoption like social, corporate, security, privacy and other impediments. This paper is an attempt to discuss the various obstacles posing adoption of technology in the banking industry. The data for this paper has been obtained from secondary sources including referring periodicals, books and other published manuscripts like annual reports. The paper concludes that financial institutions venturing into the provision of banking services through multi-channels like ATM which is common in many urban and rural India, should be aware of its challenges and try to take necessary measures to avoid lose and frustrations and to attain inclusion growth

Key words: Multi-channel, Banking, Management, ATMs, Technology, Cyber

Introduction

The last decade has witnessed tremendous changes on the financial service industry especially the banking sector all over the world. These changes will have to intensify in the coming years as countries move ahead with economic reforms to become more efficient and equip themselves to take full advantage of opportunities thrown up by liberalization. The most direct result of these changes is narrowing the spread of banks. Competition has been seen vigilant on account of advances in communications technology.

Banks can reach their customer anywhere, anytime and customers are also able to get instant access to their accounts. With increasing competition among banks, customers are also becoming more discerning and demanding. To meet customer expectation, banks will have to offer a broad range of deposits, investments and credit products through diverse distribution channels including upgraded branches, ATMs, telephone and internet. The key to attract and retain customers, therefore, is laid on efficient customers services, including customized value added products to meet various needs of individual customers and also to meet the needs of diverse types of customers (Kaptan, 2003).

In preparation to meet these challenges, banks will have to become more customer centric, offering wide range of products through multiple delivery channels, become proficient in increasing assets and liabilities according to risk and return, invest in technology for better management system, product development, risk management, funds management and customer services. The key to meeting these challenges lies in

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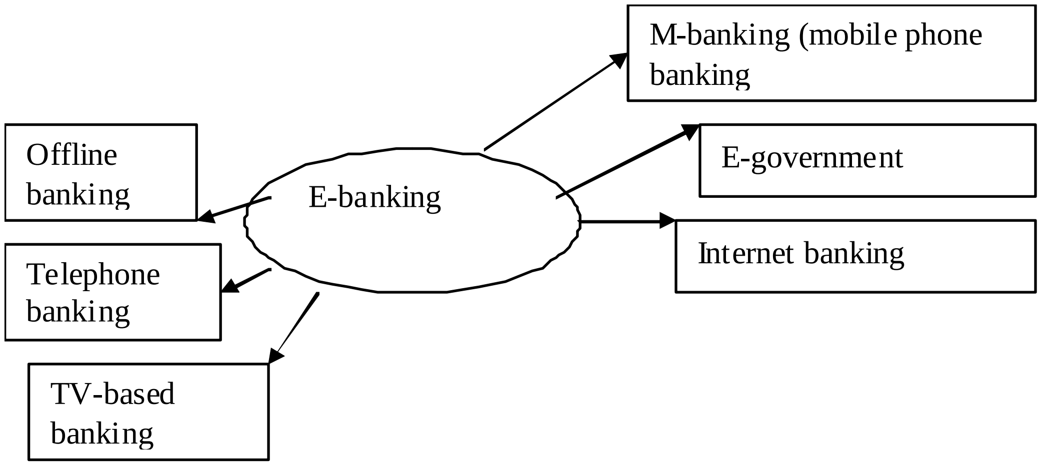
putting in place the necessary systems and skilled staff, training and equipments, the workforce and all out efforts to motivate and retain staff with expertise.

Figure1: Losers and winners in the future Cyber-banking



Source: Katri et. al, (2002)

Electronic banking technology has also played a vital role in the process of transformation enabling banks to present the various products and services to customer through cheaper, convenient and easy channels. Widespread internet use is the basic pre-requisite for online banking. Katri (2002) quoted some e-banking development specialists (Ilison,2002;Suld 2002) who predicted that in the years to come, more attention will be focused on mobile phone based services, such as account balance inquiries by SMS payments via mobile phones (Figure 1.1) more government services will move into internet banking.

At the current state, it's already possible to fill in and send income Tax statement to tax agency and make inquiries to social security databases. According to specialists, the phone banking will remain as an additional distribution channel only. The future of TV banking is quite questionable, although some positive perspective may open after switching to digital TV. Offline banking is currently used by corporate clients, whose volume of payment is big enough to slow down online transaction speed, some corporate also prefer to store all financial data in their own data base, not in bank data base. Banks are working to find a solution to this problem and direct all corporate clients to online internet banks.

Objectives and Methodology of the Study

Objectives

This study is an attempt to unveil the emerging challenges facing the adoption and spread of technology in the banking industry. The major objectives include conceptualizing the different challenges of banking technology adoption on the basis of review of literature and to discuss the major hindrances in the multi-channel banking technology.

Methodology

Research methodology is very important in every piece of research work. This study has followed its own methodology by first conceptualizing the different challenges from the intensive survey of literature, on the basis of which a discussion is made on impediments to multi-channel banking technology.

Theoretical background

E - Banking creates unprecedented opportunities for the banks in the ways they organize financial product development, delivery, and marketing via the internet and other electronic devices. While it offers new opportunities for banks, it also poses many challenges such as the innovative of IT applications, the blurring of market boundaries, the breaching of industrial barriers, the competitions and the emergence of new business models (WU, 2006). The speed and scale of the challenges are rapidly increasing with the pervasiveness of the internet and the extension of information economy. However, to successfully cope with the challenge of the e-banking innovations, the incumbent banks must understand the nature of the change and capability barriers that it presents. Without this understanding, attempts to migrate to e-banking may be doomed to failure. Banks that are equipped with a good grasp of the e-banking phenomenon will be more able to make informed decisions on how to transform them into e-banks and to exploit the e-banking to survive in the new economy.

Nsouli and Schaechter (2002) argues that, electronic banking being the wave of the future, not only provides, enormous benefits to customers in terms of the ease and cost of transaction, but poses new challenges for country authorities in regulating and supervising the financial system and in designing and implementing macro economic policies. This has been supported by Sathye (1998) that Regulating barriers in many countries are on the way, as the Internet gains momentum.

Governments are under pressure to reduce the barriers to the competitive activity in the financial sector further to allow existing banks to remain competitive with their newer rivals. One major threat to banks is the Internet only or virtual banks. With US$ 2 million, one can get up a fully functional Internet only bank and provide payment services on the Internet. However, security first Net Bank (SFNB) which was formed in 1996 in the US and claims to be the first internet only banks was acquired by the Royal Bank of Canada in 1998 (Unnithab 2001), suggesting that customers may still want the comfort of a physical presence of Banks, despite the plethora of opportunities available due to the introduction of e-banking.

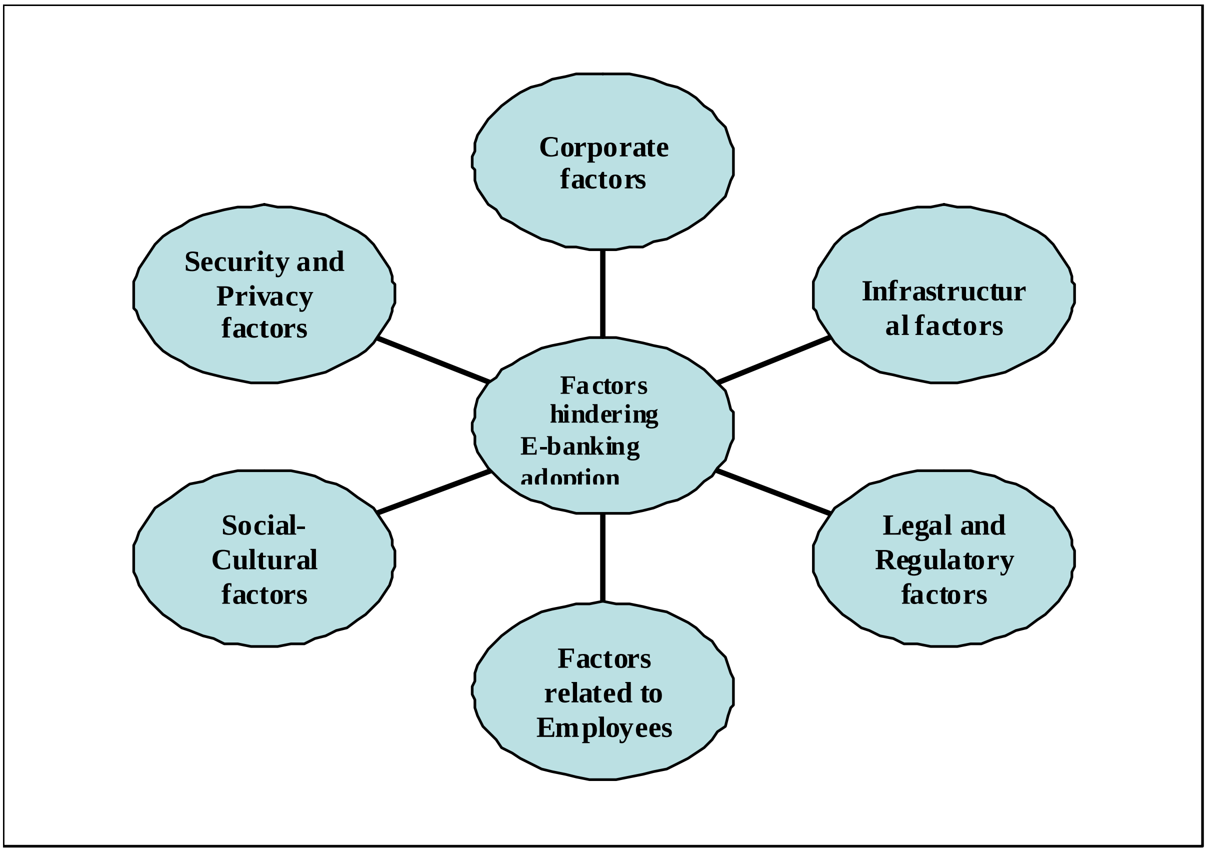
The scattered data across the countries is also another challenge before banks trying to become e-enabled. Integrating of this data is necessary if the banks have to do so. Another issue worth mentioning is the move towards expanding the basket of financial products being offered by financial service provides in developed countries, financial service providers are using the internet as a media for expanding into new products. Banks are getting into mutual funds and vice-versa however, in India archaic regulations do not allow companies to have a close relationship with the banks owned by them or to offer products, like ICICI is forced to keep off its banking arms separate from the main company. Such institutions are also prevented from offering products, which fall under the preview of Banks. This is a serious impediment for innovation in the financial service sector. Moreover it prevents financial service providers from exploiting the power of the web.

Given these challenges, only banks which moves fast, and tries to capture the first mover advantage can think of success in this sector. There are several major challenges and issues the e-banking industry. This study has investigated and identified some major challenges facing e-banking adoption and development in developing countries, which include security corporate, infrastructural, socio-economic, legal, employees' and Risk management challenges (Figure 2 on next page)

(a) Security and Privacy factors

Security is the first and foremost requirement of e-banking as the internet is inherently unsecured. Securing process in e-banking involves authenticating both

Figure 2: Schematic Categorization of Factors Hindering Cyber-Banking



customer and banks level protecting the information to be transmitted from interception. An e-banking system that is not secured may not get trust from its users. Trust is one of the crucial factors for the acceptance of e-banking system (Taddesse et. al 2005). Shetty (2006) opined that with the growth of electronic payment systems, e-cash, home, P.C. banking and stored value cards, the spread of crime is likely to accompany the vastly increased storage and transmission of customer financial information. Computer systems today even in areas of non-financial data are increasingly vulnerable to unauthorized access, theft or tampering. Yibin (2003) argues that, the internet is ubiquitous and global in nature. It is an open network accessible from anywhere in the world by unknown parties, with routing of messages through unknown locations and via fast evolving wireless devices. Therefore, it raises significant challenges on security control, customer authentication techniques, data protection and audit trail procedures are customer privacy standards.

(b) Corporate factors

E-banking wave has come with several challenges which are shaking the corporate sector. there are so many questions which have been left unanswered and which need immediate solutions like, who should be the target customers?, what should be the scale of operations, what should be the technology adopted? And what should be the marketing strategy? While the obvious answer to target customers may seem to be people living in metropolitan and urban areas who are desirous of using such services and are capable of paying for the some nationalized banks would do well to keep in mind that such target group would be the target of banks who are better equipped to deliver electronic products and services (Verma 2006).

Outsourcing is also another issue to be addressed in corporate challenges, brought by e-banking wave.

(c) Infrastructural Factors

The other challenge of e-banking is improper set up of infrastructure (Taddesse 2005). For the effective deployment of e-payments, it is necessary to have available and cost effective infrastructure that can be accessible to the majority of the populations. The most common communication infrastructure for e-banking is computer network such as internet. Most e-banking systems use internet to communicate with their customers. The other communication infrastructure available for e-payments users is the mobile network used for mobile phone. Both the mobile network and internet are readily available in developed countries. Users in these countries do not have a problem associated with communication infrastructure. In developing countries Internet networks are not easily accessible. Poor communication infrastructure is one of the reasons that hinder the e-banking systems in India and Kenya. User access devices such as PC and Mobile phone are not also readily available. According to Yang (2007), limited online payment options have resulted in many customers process due to dissatisfaction and inconvenience that is due to poorly developed infrastructural networks. But proper developed to customers and hence reduce a challenge from competitions with proper developed networks.

(d) Socio - Cultural Factors

Cultural and historical differences in attitudes and the use of different forms of money, for example use of credit card in North America and use debit cards in Europe, complicate the task of developing an electronic payment system that is applicable at international level. Difference in the degree of the required security and efficiency among peoples of different aggravates the problem. New technology also requires the test of time in order to earn the confidence of the people, even if it is easier to use and cheaper than older methods (Teddesse 2005). Though Brick and mortar branch would soon be the phenomenon of the past, with virtual branches taking over, Gurusamy (2001) argued that the fear of technology puts the average customer away from electronic delivery channel.

(e) Factors related to Employees

E-banking has also posed other challenges to employees of institution engaged in technology adoption. Questions like what should be the code of conduct to be followed by employees and what should be the remuneration policy must be addressed in order to cope with internal forces which may affect the process of technology adoption. In the sphere of traditional banking, employees are required to sign a privacy and confidentiality agreement which forbids them from disclosing the state of customers accounts with the advent of electronic banking several other issues like, use of internet, security, email access, access to and control of web browsing and transmission of customer data to outside service etc will have to incorporated in the confidentiality agreement. Taking into account that e-banking will use the latest technology and that staff operating the same should be people of integrity, possessing technical skills an motivation to some the institution, in times when their services are in tremendous demand else where, banks as perquisites, Bonuses, incentive compensation, stock option and health and welcome schemes as part of competition packages for employees (Verma 2006).

(f) Legal and Regulatory Factors

National, regional, international set of law, rules and other regulatory issues are important prerequisites for successful implementation of e-banking schemes. Some of the elements include money laundering, supervision of commercial banks and e-money institutions by supervisory authorities, payment system oversight by central banks, consumer and data protection, cooperation and competition issues (Taddesse 2005). The virtual and global nature of e-banking also raises legal questions such as competent and about applicable laws in disputed cases, validity of electronic signature. Moreover a legal and regulatory framework that builds trust and confidence supporting technical efforts to meet the same is another vital issue to be addressed. In many developed countries, necessary government regulators have been put in place to help the markets work efficiently, ensure safety and soundness, protect consumers and stem the risk of systemic threats to the payment system.

Conclusion

The banking industry is changing in recent years where by customers are in demand of modernized and stylish products and services. All banks and other financial institution interested in offering new multi-channel banking services are trying to adjust with the demands of customers. The evolution of multi-banking has come along with challenges which need to be taken into account before bank managers try to adopt the new systems and in order to survive in the intense market competition. This challenges sometimes are underrated which result to heavy losses when it comes to returns. Bank managers must be aware of all forces in the market for them to sail smoothly in the gamut of financial services integrated with the new technology to gain the required financial inclusion.

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