A STUDY ON THE PSYCHOLOGY OF AN INDIAN CUSTOMER TOWARDS

E-BANKING WITH REFERENCE TO PUNE REGION

Abstract

The advancement in the technology paved new ways of delivering bank facilities to the customer, such as ATMs & Internet Banking. Hence banks have come a long way from its traditional banking methods. This research paper throws light on the response to E-Banking facilities by Indian customers. As it has been more than three decades since the E-Banking concept came into existence, it becomes very much essential to study the current state of Internet banking through the Indian context. The basic aim behind this research is to check the percentage of customers using online banking in Pune & its outskirts. It also aims at suggesting some ways for making internet banking successful in the developing country like India. This paper depicts the study of various E-Banking facilities that are provided by private sector, public sector & co-operative banks in Pune & its outskirts & in what way the Indian customers are responding towards the same.

Key words

E-Banking, Online banking facilities, Indian bank customer, attitudes

Introduction

The main purpose that banks have been serving since their inception is keeping our money safe for us. While keeping our money safe, they also let us earn a certain amount of interest on the money deposited with them. Traditional banks have been doing this, and internet banks continue the same function. The only difference is in the way the transactions are made.

Online banking has been around for quite a few years. In fact, it was introduced in the 1980s and has come a long way since then. The last decade has seen a profuse growth in internet banking transactions. Several pieces of legislation have also been introduced in this area.

Though it began in the 1980s, it was only in the mid nineties that internet banking really caught on. What attracts customers to internet banking is the round the clock availability and ease of transactions. Some customers have been known to turn to internet banking due to dissatisfaction with standard procedures and practices. The total absence of human interaction appeals to some people. Some customers turn to internet banking facilities for security reasons. This is mainly because of customers being assured of banks' ability to keep transactions safe and secured.

Most online transactions are made using the Internet Explorer interface. The Internet Explorer has been around for more than ten years now.

Internet banking (or E-banking) means any user with a personal computer and a browser can get connected to his bank's website to perform any of the virtual banking functions. In internet banking system the bank has a centralized database that is web-enabled. All the services that the bank has permitted on the internet are displayed in menu. Any service can be selected and further interaction is dictated by the nature of service. The traditional branch model of bank is now giving place to an alternative delivery channels with ATM network. Once the branch offices of bank are interconnected through terrestrial or satellite links, there would be no physical identity for any branch. It would be a borderless entity permitting anytime, anywhere and anyhow banking.

  The network which connects the various locations and gives connectivity to the central office

within the organization is called intranet. These networks are limited to organizations for which they are set up. SWIFT is a live example of intranet application.

The popular services covered under E-banking include:-

1. Automated Teller Machines
2. Credit Cards,
3. Debit Cards,
4. Smart Cards,
5. Electronic Funds Transfer (EFT) System,
6. Cheques Truncation Payment System,
7. Mobile Banking,
8. Internet Banking,
9. Telephone Banking, etc.
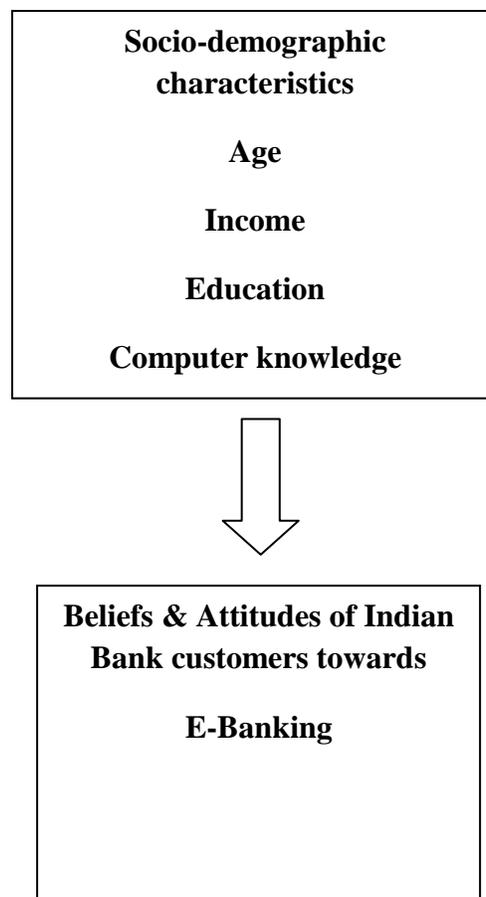
The main advantages of E-banking are:-

1. The operating cost per unit services is lower for the banks.
2. It offers convenience to customers as they are not required to go to the bank's premises.
3. There is very low incidence of errors.
4. The customer can obtain funds at any time from ATM machines.
5. The credit cards and debit cards enable the Customers to obtain discounts from retail outlets.
6. The customer can easily transfer the funds from one place to another place electronically.

Research Objectives

1. Understand the various services provided under the umbrella of E-Banking.

2. Studying the psychological aspects of Indian customers which stop them from shifting towards internet banking.

3. Suggesting ways for making E-Banking in India successful.

Conceptual Framework

This study focuses on the relationship between socio-demographic characteristics like age, income, education, and beliefs & attitudes of bank customers towards E-Banking. The socio-demographic characteristics will be Independent Variables and beliefs & attitudes will be Dependent Variables.

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│   Socio-demographic             │
│   characteristics               │
│                                 │
│           Age                   │
│                                 │
│          Income                 │
│                                 │
│         Education               │
│                                 │
│     Computer knowledge          │
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┌─────────────────────────────────┐
│   Beliefs & Attitudes of Indian │
│   Bank customers towards        │
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│          E-Banking              │
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Literature Review

Online banking acceptance has gained special attention in academic studies during the past five years as banking journals have devoted special issues on the topic (Mukherjee and Nath, 2003). Two reasons can be established for online banking development and diffusion. First, banks can save costs by offering online banking services. It has been proven that online banking channel is the cheapest delivery channel for banking products Once established (Giglio, 2002.) Second, banks can reduce their branch networks and downsize the number of service staff, which opens the way for online banking as many customers feel that branch banking requires too much of their time and effort. Therefore, time and cost savings and freedom from place have been found to be the main reasons underlying online banking acceptance (Howcroft, Hamilton and Hewer, 2002).

Online banking offers many benefits to banks as well as to customers. However, when compared globally the percentage of online users is not as high in the USA as other regions of the world. There can be several reasons for this, the most obvious being that customers need to have access to the internet in order to utilize the service. Also new online users first need to learn how to use the service. Nonusers often complain that online banking has no social dimension, i.e. they are not served in the same way as in a face-to-face situation at a branch. Plus there are issues of security and privacy.

The business benefit of the internet, according to Gow (1997), is to generate additional revenue, improve customer service, extend marketing, and increase cost saving. Banks enjoy these benefits as well. In an article entitled "Next-Generation Retail Banking" (Compaq, 2001), the business drivers for internet banking included:

Additional transaction revenues. Banks can derive revenues over and above their offline revenues by charging for online services and value-added services, such as providing a portal for financial services linked to short-and long-term insurers, links to stock brokers, and links to foreign banks.

Savings from reduced transactional costs. On the internet, customers serve themselves, negating the need for frontline staff. Savings are gained from reductions in staff, reduction in branch sizes, and reduction in consumable costs: such as paper, ink cartridges, and other stationery.

Opportunities for acquiring new customers. Customers looking for the flexibility

and convenience offered by internet banking will be attracted to banks providing the best services. Existing customers can be sold products that they do not have in their portfolio such as a second credit card, life insurance, and home loans among others.

☐☐Improved ability to retain customers. Customer relationship management (CRM) can be facilitated by the data acquired and captured on the corporate database. Products and services can be customized to suit the needs of the customer or groups of customers, thus facilitating customer loyalty.

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Agarwal *et al*. (2009) have undertaken a study to understand the perception and attitude of Indian customers and their satisfaction level with the variousservices offered through the e-banking mode by banks in India. The study reveals that customer satisfaction with security and trust provided by the e-banking site has the maximum impact on overall satisfaction of customers with e-banking, followed by customer satisfaction with convenience and ease of use.

Stamoulis *et al.* (2002) studied the challenges faced by banks in assessingthe value of its main e-banking channel in operation. The study used a model which comprises five different perspectives each having a corresponding set of met rics. These were used to assess the business value along two viewpoints:

(a) The internal view where the channel is considered as a resource whose utilization must be maximized; and

(b) The external view where the channel is an interface to the bank's customer base whose usage should directly support CRM.

Proença *et al.* (2009) analyzed the impact of the use of Internet banking(i-banking) by customers on the relationship they develop with their main bank. The study made a relationship between the dimensions: the use of i-banking, and the relationship marketing approach in banking. The results showed that the relationship marketing approach is sensitive to the intensity of use of i-banking as well as to the diversity of operations performed there. The study revealed a strong

association between the duration and maintenance of relationship and the diversity of places of access to i-banking.

Pikkarainen (2004) focused on the factors that influence online bankingacceptance in the light of the technology acceptance mode. The study revealed that perceived usefulness and amount of information clearly have a positive effect on the use of online banking. The finding refers to the fact that consumers use online banking for the benefit it provides in comparison to other banking delivery channels.

Sohail and Shanmugham (2003) studied customers' preference for e-banking and the factors which they considered influenced its adoption. The study revealed that accessibility of Internet, awareness of e-banking, and customers' reluctance to change are the factors that significantly affected the usage of e-banking in Malaysia. The study indicated greater promotional effort on the part of banks to create greater awareness of e-banking and its benefits which is important for the success of e-banking services patronage.

Yang *et al.* (2009) described a comparative study about the issues in the current e-banking services among the young consumers between two nations: China and USA. The attitude and usage of young consumers will be a good indicator for the

trend of e-banking service in future. Different cultures and traditions play a role in

the development of e-banking industry among different nations. This comparative

study provides insightful guidelines for the development of e-banking industry worldwide.

Lee (2009) explored and integrated the various advantages of online banking to form a positive factor named perceived benefit. In addition, drawing from perceived risk theory, five specific risk facets—(1) Financial, (2) Security/privacy, (3) Performance, (4) Social, and (5) Time risk—were synthesized with perceived benefit, as well as integrated with the Technology Acceptance Model (TAM) and

Theory of Planned Behavior (TPB) model to propose a theoretical model to explain customers' intention to use online banking. The results indicated that the intention to use online banking is

adversely affected mainly by the security/ privacy risk, as well as financial risk, and is positively affected mainly by perceived benefit, attitude and perceived usefulness.

Yang *et al.* (2007) investigated the recent trend and development of the application of e-banking (banking through Internet) in rural areas and its economic impact on local financial institutions. The study investigated how those smaller and community banks located in rural areas have attempted to catch up with their counterparts in larger cities in terms of the application of e-banking, focusing on emerging issues and challenges. The study revealed that the e-banking operation is still in its infancy, for most of those small and local community banks conform to the perception that the addition of new e-banking service will reduce banks' operating cost and increase the degree of customer satisfaction. But small and local community banks should speed up their effort in using some recent new technologies like mobile banking (m-banking) and promotional efforts to increase their e-banking services.

Liao and Cheung (2002) measured consumer attitudes toward Internet-based e-retail banking as a financial innovation and to explore its viability and prospects on the demand side. The study found that individual expectations regarding accuracy, security, transaction speed, user-friendliness, user involvement, and convenience were the most important quality attributes in the perceived usefulness of Internet-based e-retail banking. In the study, too much importance was attached to attributes like time and location convenience in promoting Internet e-retail banking in the beginning, to the extent that tangible safety symbols like bricks-and-mortar offices were neglected.

Research Methodology

The research work was carried out by the team of the MBA students of Global Business School & Research Centre, Tathawade, Pune. The students were distributed into 3 groups; each group containing 4 members. Each group visited 5 banks of which 2 were private sector banks, 2 were public sector banks & 1 was co-operative bank. The bank customers as well as bankers of the concerned banks were interviewed by each group of students.

S.N.	Research Function	Approach
1.	Sources of Data & tools for data collection	1. Primary Source: Structured questionnaire via in-depth personal interviews. 2. Secondary Source: As per references
2.	Sampling Plan	Population Definition- Bank customers, Bankers of various commercial & co operative banks in Pune & its outskirts. Sampling Design- Stratified & random sampling for bankers & bank customers. Sample Size- 15 banks; 60 Bank Customers & 15 Bankers

Hypothesis

1. Online Bill Payment is one of the facilities of online banking which has got the maximum usage.

2. Lack of computer knowledge is the prime reason for not getting much response to E-Banking.

3. People hesitate to use internet banking as there is a fear attached that individual details may get public.

4. "Convenience to Customers" was the main influence on bank's decision to introduce internet banking.

5. Lack of initiative from banks is the main cause behind less usage of E-Banking services.

6. Banks conduct face to face counseling to motivate customers to use internet banking.

Findings

1. It has been found out that 85 % of the bank customers are aware of E-Banking concept.

2. It has been noticed that 30% customers are such who are not aware of the various facilities which come under the umbrella of E-Banking.

3. It has been found out that 40% customers are such that they are aware of this E-Banking concept but still somewhat hesitant to make use of all the facilities of net banking.

4. It has been observed that banks are not showing much interest to induce its customers to use E-Banking.

5. It has been noticed that 20% customers are such that even though they possess thorough knowledge regarding E-Banking, still want to visit the bank in person to complete the transaction which otherwise can be done with the help of online banking.

6. It has been observed that some co-operative banks are lagging behind in providing net banking facility.

7. It has been noticed that well established private banks have got dominance in providing better e-banking services.

8. It has also been observed that despite being educated, there is a class of bank customers who finds online banking 'Unsafe.'

Discussion

Although internet banking provides flexibility in performing financial transaction, fast and easy, however individuals are still reluctant to adopt the system because of several reasons.

First, the security and privacy are two elements in the perceived risk. Without a proper knowledge of the system, individuals are not interested to test the system. Perceived usefulness, ease of use and consumer awareness has positive impact on the intention to adopt internet banking while perceived risk has negative impact on it.

When online banking is perceived as useful, customer's intention to adopt it would be greater. Likewise bank customers are likely to adopt internet banking when it is easy to use. This shows that bank customers anchor their online banking adoption intention to the beneficial outcomes and ease of use process of the system.

This suggests that the need for banks to not only employ mechanisms to build trust for their specific e-banking website, but that banks should first take measures to educate their customers & manage general consumers' perceptions of the risks of transacting on the internet.

Limitations of the Study

1. In view of the technicalities involved, it would be unrealistic to assume that all necessary facts have been gathered in the process of the study.

2. Time was the biggest constraint. As far as the depth of the research paper topic is concerned, it would be unfair to assume that the sufficient amount of data has been collected within such a limited time frame.

3. The data collection has been done from a limited geographical area. Hence the findings & conclusion have got their own limitations.

4. The information given by the respondents might be biased because some of them might not be interested to give correct information.

Conclusion

- 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 the global and competitive nature of the economy. Banks have to upgrade and constantly think of new innovative customized packages and services to remain competitive. 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 be 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.

- However, banks are uncertain about the regulatory framework for conducting E-business and the regulatory and taxation issues for governing cyberspace presents formidable problems.

- Developing such a system is not easy as the Internet is not organized geographically and it is almost meaningless to refer to a website as national or local. Any successful attempt at governing cyberspace will involve significant international cooperation.

- While the private sector and foreign banks have been fast in adopting Internet technology in client servicing, there is a gradual trend for the major public sectors and numerous cooperative units to move in the same direction.

Further Research

There is much scope for further research as far as the topic of this research paper is concerned. Some Indian bank customers are still reluctant to use online banking. They don't believe in the authenticity of net banking services. As this research has been done taking into account a very limited data from private sector banks, public sector banks & co-operative banks in pune & its outskirts only, it has got its own limitations. On the basis of this paper, one can do the comparative study of commercial & co-operative banks. There is also much scope for the comparative study of the mentality of Indian Bank customers & foreign bank customers.

Managerial Implications

Despite private & public sector banks have adopted advanced security measures such as mobile phone short message service (SMS), security notification, security token code, one-time passwords etc., banks are not taking any effort in solving the core problem that is the customers' general distrust of the internet as a medium of exchange.

This research also identified that there is still a class of bank customers who are not willing to use e-banking. Such consumers have low interest in e-banking. Banks can chalk out effective marketing strategies for e-banking adoption by concentrating such class of customers. More efforts should be taken by banks in undertaking advertising & promotional campaigns so that greater awareness among Indian consumers towards e-banking can be brought about.

This research paper is beneficial for MBA students who are planning to take Financial Management as their specialization subject & who wish to do their summer project in banking industry. It throws light on the present scenario regarding online banking in India.

Suggestions

1. It is recommended that banks should take initiative in organizing some training campaigns for their customers to boost the use of internet banking.

2. Banks should try to evaluate their performance periodically through the context of net banking facilities they provide.

3. It is highly recommended that banks should observe easy methods to operate through online banking; so that more & more customers can make use of net banking for various transactions with ease.

4. It is also recommended that cooperative banks should try to improve the net banking facilities to remain in the stiff competition & always try to motivate their customers to make more & more use of online banking as the customer-base of the cooperative banks is mainly from the country side.

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Annexure A

Questionnaire for Customers

A) Set of yes/no type questions

1. Are you aware of E-Banking concept?

- o   Yes
- o   No

2. Do you have faith in E-Banking?

- o   Yes
- o   No

3. Have you registered with mobile banking?

- o   Yes
- o   No

4. Do you still visit the branch of the bank in person since you started making use of online banking service?

- o   Yes
- o   No
- o   N/A

B) Set of check box type questions(multiple choice)

1. Which services of internet banking you make use of?

☐ Credit card   ☐ Bills Payment (phone & electricity)

☐ Debit card   ☐ Fund Transfer

☐ Transaction Enquiry

2. What are the possible reasons for not using internet banking?

☐ Not safe   ☐ Fear attached with the personal information may get revealed

☐ Possibilities of Phishing   ☐ Apathy

3. What are the possible reasons behind less usage of e-banking services?

☐ Lack of initiative from banks   ☐ Lack of computer knowledge

☐ Illiteracy   ☐ Any other reason

C) Set of option button(one choice)

1. From the following alternatives what will be your choice?

- o Cheque payment
- o Payment through DD
- o Electronic money transfer
- o Hard cash payment in person

2. How long have you been using Internet Banking?

- o   Never
- o   0-6 months
- o   1 year-2 years
- o   2 years & above

3. How often you make use of online services?

- o   Daily
- o   Weekly
- o   Monthly
- o   Never

D) <u>Set of Gradation type questions</u>

1. Rank the following online banking services as per your preference levels as Most Preferred & Least Preferred from amongst the following alternatives.

	Most Preferred	Least Preferred	Can't Say
a. Payment through cheque	☐	☐	☐
b. Payment by hard cash in person	☐	☐	☐
c. Payment by DD	☐	☐	☐
d. online payment.	☐	☐	☐

2. Rank the following online banking services as per the degree of usage from amongst the following alternatives.

	Highly Used	Moderately Used	Never Used	Can't Say
a. Transaction Enquiry	☐	☐	☐	☐
b. DMAT or any other account statement	☐	☐	☐	☐
c. Online Bill Payment	☐	☐	☐	☐
d. E-Shopping	☐	☐	☐	☐
e. E-ticket Booking	☐	☐	☐	☐

Annexure -B

Questionnaire for Bankers:

A) Set of yes/no type questions:

1. Do you think that internet banking is being used on a larger scale in India these days?

- o   Yes

- o   No

2. Does your bank maintain a web presence on the internet?

- o   Yes

- o   No

3. Do you feel that electronic banking is better than visiting bank branches? Why?

- o   Yes

- o   No

B) Set of multiple choice questions:

1. What could be the possible reasons for not getting much success to E-Banking in India?

☐ Lack of computer literacy   ☐ Lack of knowledge about E-Banking services

☐ Indian Mentality   ☐ Doubts or fear factor attached with online services

☐ Lack of awareness among Indian customers

2. What important steps your bank is taking to motivate people to use E-Banking?

☐ Customer Awareness Programme   ☐ Face to face counseling

☐ Distributing user-friendly booklets   ☐ Mass mailing

3. When banking regulations allowed it, which of the following would be the main influence on your bank's decision to introduce internet banking?

☐ To be a technology innovator   ☐ To lower cost

☐ To increase competitive edge of the company   ☐ To offer convenience to customers

Set of Gradation type questions:

1. What percentage will you offer to the following services of E-Banking considering their usage?

	10% - 30%	30% - 60%	60% -90%	90% & above
a. E-Ticketing	☐	☐	☐	☐
b. E-Tax	☐	☐	☐	☐
c. E-Shopping	☐	☐	☐	☐
d. Online Bill Payment	☐	☐	☐	☐
e. Insurance Premium Payment	☐	☐	☐	☐