ROLE OF INFORMATION TECHNOLOGY IN ALTERNATIVE CHANNEL SERVICES

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ABSTRACT

In recent times the alternative channel services replaced the traditional banking services. In this context the information technology plays a dominant role. The IT is part of our day to day life we cannot think about life without this. This took the banking services to next level. Now life become easy and there is no need of wasting time by visiting bank branches. The concept of branchless banking is evolving due to this. The present study is a conceptual one in this paper the authors tried to address the various concepts and associated issues of risk. For the purpose the secondary data is being considered and the objective of this paper is to undertake the empirical study on the topic.

Keywords: Alternative Channel services, E-banking, Internet banking & risks

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1. INTRODUCTION

1.1. Back ground of the study

The term Alternative Channel Service refers to Electronics Banking. In present scenario, it is more feasible in almost every nationalized banks and private sector banks. Due to the enrichment of technology in India, the electronics banking has emerged as a preferred service for the banks to beat the stiff competition. This service has more popularized in developed countries like United States of America (USA), European nations and United Kingdom. Now, it has also drastically changed the banking activities in developing countries like India. The
Reserve Bank of India (RBI), the regulating body of the banks, has shown utmost faith for this service and permitted the banks to carry out their work through Electronic banking to do the banking operation quicker. Electronic Banking refers to Electronic Fund transfer (EFT) throughout the day (24*7) without depending upon the branch banking. The fund will be transferred from one account to another without use of cheques or hard cash to reduce the paper transactions. This service includes Internet Banking, Mobile Banking, Automated Teller Machine (ATM), Debit Cards, Credit Cards, Green Cards and etc. The main focus of Alternative Channel service is to optimize services with minimum costs.

Due to the economic reform and increase of banking transaction, the branch banking faced problems to offer quick service to their customer to satisfy the needs. To avoid the paper work and queue of customer, the banking sector emerged to adopt the technology to satisfy their customer. In the era of technology and demand of digital lifestyle, it paved the way to bring the workplace to home which coupled with demographic shift. The new regulatory framework in finance sector to comply the challenges to satisfy the market uncertainty, the financial institutions adopted the opportunities of technology to innovate the financial landscape by stepping outside their comfort zones.

Alternative Channel Services provided opportunities to the customers to perform their activities at home without visiting the home branch. The employees of banks have also got maximum time to innovate new ideas to satisfy the customer needs. On adoption of Alternative Channel Service, it has provided a way for the private sector banks to be pioneer in the banking sector and paved the path for others. It is not only providing the cost effective services but also reduced the bank personnel to avail quality services efficiently and effectively. It also gives opportunities to banks to attract more customers and to enter into a new segment.

2. OBJECTIVES OF THE STUDY
✓ To understand the concept of Alternative of Channel Services.
✓ To undertake the empirical study on the topic.

3. METHODOLOGY
The present study is based on secondary data.

3.1. Types of E-Banking Service
The traditional banks offer the Internet banking services to their customer to create some value addition to their business. The banks provide Internet banking by developing their bank website and basically the E-Banking service is categorized into three types:

✓ Basic Level Service or Informational: In this level the banks websites circulate the information on various products and services offered to their customers and it may enable to receive and reply the queries of customers through e-mail. In this level, the risk is relative low, as there is no path between the server and internal network of the banks. Therefore, the banks have to take appropriate control measures to prevent the unauthorized alteration to the banks website.

✓ Simple Transaction Level or Communicative: The banks websites permit the customers to submit their query regarding the various products and services offered by banks, to access the products and services usage instructions and bank balances queries, loan application and file updates etc. but do not allow to perform any fund based transactions on their accounts. In this level the risk is relatively high as compared to the informational level because a high level configuration
required for providing effective products and services to the bank customers. So, a well-structured control measures to be needed to prevent and monitor the bank’s internal networks and computers.

✔ **Fully Transaction Level or Transactional**: In this category, the banks websites permits the customer to perform the transactions like fund transfer, payment of bills, subscription of new products, purchase and sale of securities etc. In this level, the customers directly perform their transaction through banks website. So, the risk level is higher and the bank has to build the network architecture in such a manner that nobody will able to destruct the security controls.

### 3.2. E-Banking in India

The term E-banking refers to Electronic banking and today, it is more feasible in many nationalized & private sector banks. This has emerged as a preferred service for the banks to beat their competitors. This service has more popularized in the developing countries like India and also the Reserve Bank of India, the regulating body of the banks, has shown the utmost faith for this service and permitted the banks to carry out the work through electronic banking to make the banking operation quicker. In India, the ICICI bank is the first bank which implemented the E-banking services in 1996 and improvised its banking services significantly in the subsequent years. On adoption of this technique, it has became the pioneer private bank in the banking sector and provided a path to the other banks to introduce this service. It is not only providing the cost effective services but also reduced the bank personnel to available quality services efficiently and effectively. It has also shown a path to attract more customers and entering to a new segment customer database.

In India, basically the financial reform was taken place in the early 1990’s. The globalization and liberalization measures brought a new marketing environment for the banks to operate their business. In 1991, the then prime minister of India, Mr. P.V. Narasimha Rao and the finance minister of India Dr. Manmohan Singh implemented the concept of Globalization, Liberalization and Privatization. Due to this financial reform many foreign company got an opportunity to expand their business in India and private companies opened up their business in a larger scale to run their business in many sectors.

The concept of Internet Banking process started in early 1980’s when the Reserve Bank of India (RBI) constituted two committees in quick intervals to increase the automation banking operations. A committee was formed under the leadership of Dr. C. Rangarajan, the then Governor of Reserve Bank of India (RBI) to a phase plans for computerization and mechanization in the banking industry during 1985-89. The main focus of that committee was on customer service and branch automation and the committee had developed and implemented the model of branch automation. The second Rangarajan Committee was formed in 1988 to sketch the plan of bank computerization and extension of automation to other areas such as email, BANKNET, fund transfer, ATM, E-Banking etc.

The Internet banking transaction firstly recognized in 2000 when the Government of India endorsed the Information Technology Act, 2000 (IT Act, 2000) to provide the legal recognition to electronic transactions and other means of electronic commerce with effect from 17th October, 2000. Again, RBI constituted a ‘Working Group’ to examine the following aspects of the E-Banking.

✔ Technology and Security issue.
✔ Legal issues
✔ Regulatory and supervisory issues.
3.3. Impact of E-Banking on traditional services

E-banking reduces the transactions cost to a great extent in comparison to the branch banking transactions. It would change the past competitive advantages of banks - a large branch network - into comparative disadvantages, by allowing the E-Banks to undercut the transaction cost. Currently lot many banks are coming forward to introduce this service due to the easy set up and the new entrants are not facing any problem of burden from the old system, cultures and structure. It will not only providing much choice to the customers of traditional banking but also attracts the customer towards the new banking practice to take advantages of share of banking profits. It simply enables the banks to bring two parties together e.g. buyer and seller, payee and payer to perform the relevant transaction with cost and time effective. So, today the banks indeed treated as glorified marriage brokers.

Traditional banks enable the customer to provide the service like payment and settlement of business transaction, generation of customer saving accounts and lending these saving to other borrowers. They can perform this type of transaction in smoother manner or not, it is always in doubtful. Traditional banks will face problems of acquisitions of cash and to offer shares to the general public. In traditional banking system every transaction has to enter into the books of various accounts in manual form and the bank official has to take more time to perform one particular transaction. This results not only their inability to acquire additional capital form the stock market but also reduces the efficiency of their employee. The bank personnel will also face problems to track a particular transaction because they have to search manually from the big bunch of books of accounts.

But, on the introduction of E-Banking, the bank personnel have the opportunities to perform the banking transaction in their fingertips. The E-Banking enables the financial institutions to attract more investors to invest in capital market and helps to generate additional capital requirement easily. It simply treated as a new banking delivery channel and gives the advantageous service like ATM. As Scandinavia confirmed that the future of Bank is “click and mortar” banking. Customer will able to perform all the banking transaction by one click. E-Banking is able to provide banking service to its customer at any time, any place, anywhere and anyhow. But, in traditional banking, the customer has to go to the bank premises to perform the banking transactions. E-banking enables the customer to do the banking transaction as and when they needed at their doorstep. ATM provides the facility of withdrawal and transfer of cash as per the customer requirement.

The initial cost to set up of E-Bank is much higher than the opening of traditional bank branch. Again the establishment of a trusted brand is more costly as it requires a huge amount of advertisement expenditure and purchase of expensive technology. To make the E-Banking service successful, the bank has to keep eye on the security and privacy factors to gain the customer approval. Though, the traditional banking network needed less cost for its inception and opening but it would not able to fulfill the customer changing requirements in long run. Today, E-Banks have already discovered that retail banking only becomes profitable if a large critical mass is achieved. Many E-Banks are limiting themselves to provide better service to their customer. Electronic Banking delivery channels helps to interact with customers and communicate with other banking system with ease but in traditional banking this mechanism is not available and the bank personnel has to personally build these communication delivery system with other banking system.

Banking products and services being offered through internet banking is similar to the traditional banking but these products and services delivered through electronic communication delivery channels. This process remains open for everybody to submit their valuable suggestions for the betterment of banking industry. The customer can also participate
in formulation of banking regulation by giving their comments on banking products and services.

3.4. Features of E-Banking

- It removes the geographical barriers and could reach out the customer’s word wide or any legal jurisdiction.
- It has added new measurement systems for various risks which would associate with the traditional banking and abstract some of the risk and develop new challenges to control the risk.
- As Internet is a public domain, E-Banking always gives importance for transaction security, electronic contract validity and customer privacy.
- It delivers the efficient and cost effective banking services to the customer and creates a strategic risk of loss of business to the banks who do not take action in time to adopt the new technology prevails in the market.
- It has given a new form of competitive advantages to the existing players and new entrants in the banking industry.

4. RISK ASSOCIATED WITH INTERNET BANKING

The main factor that helped to the success of Internet Banking is its cost effective delivery channel. Though Internet Banking reduced the transaction cost but it brought new forms of risk for banks. Therefore the regulators and supervisors all over the globe concerned that while banks should remain cost effective and efficient but they must be conscious about the different types of risk and should take measurable steps to control such risks. The different risks associated with Internet Banking are as follow:

- **Operational Risk:** Operational risk as treated as transactional risk is the common risk associate with E-banking. It is the form of inaccurate transaction processing, unauthorized access, non-enforceability of contracts, data privacy and confidentiality, compromises in data integrity etc. This type of risk mainly occurs from the faulty practice in design, implementation and monitoring of bank information system. The potential source of operational risk is arising from the human factors like negligence of customer and employees, fraudulent activities of employees and hacker.

- **Security Risk:** Internet is a public network and used by some many users. Internet provides unrestricted access to the users to gather the data and information. Security risk mainly arises from unauthorized access to critical information of stores of banks like risk management system, accounting system, portfolio management system. Therefore, many hackers try to breach the code of security to hack the hidden information to take the market advantages. They can also able to retrieve the data, implant virus in bank computers and use confidential customer information in forms of cybercrime. This may lead to the tempering of customer information, loss of data etc. The security risk is a major problem for E-banking because it will reduce the customer privacy, faith, reputation of banks and legal issues.

- **Reputational Risk:** It arises from the negative public opinion which leads to the loss of income generation. This will reduce the faith or confidence of the public due to the banks inability to impair bank-customer relationship. The factor concern for this type of risk is mainly the system or product is not satisfying the expectation of customers, system deficiencies, breach of security, inadequate flow...
of information, problem in resolution procedures and problems of communication network.

**Legal risk:** Legal Risk occurs from violation of rules, laws, regulation and practices pertaining to the E-banking or when the parties try to breach the legal rights and obligation associated with the transaction. As the Internet Banking practice is a new concept for the banking sector, so the legal rights and obligation are uncertain and applicability of laws and regulation is ambiguous, which causes the legal risk. The other types of legal risk are uncertainty about the validity of agreement, laws pertaining to customer disclosures and protection of customer privacy.

**Money laundering risk:** The banks may face difficulty to apply traditional method for detecting and preventing undesirable criminal activities due to application of Internet banking transactions. To be more efficient the banks may not also follow the rules of money laundering for some kind of electronic payments which expose the banks towards the money laundering risk. The banks have to design proper customer identification and screening technique, conduct periodic compliance review, develop audit trails, form policies and procedures to detect and report the doubtful activities to avoid this risk.

**Cross border risk:** Internet banking is designed to extend the geographic reach of banks and customers. It also aims to expand the bank business beyond the national borders. The cross border risk occurs due to different laws and regulation in various countries. This may expose the banks to non-compliance of different national laws and regulation including consumer protection law, record-keeping and report, customer privacy and rules for money laundering.

**Strategic Risk:** This risk arises due to introduction of new product and services. This risk depends on the strategic procedure followed by the organizations to address the issues pertaining to their business plan development, source of resources, vendor credibility and technological specifications. To control the strategic risk, the banks need to conduct proper survey, consult experts from different fields, proper goal setting and evaluate performance. Beside this the banks have to take initiatives to choose the proper vendor, analyze their periodic performance, keep reserve the alternative vendor for the vendor who is not fulfilling the obligation and periodic review of technology and make strategy for cost effective technology upgradation.

**Credit risk:** This risk occurs when the counter party unable to pay the obligation in time or on due date. The banks may not able to evaluate the proper credit worthiness of customers at the time of providing the credit facilities through remote banking procedures, which could enhance the credit risk. To avoid this type of risk, banks have to follow the proper evaluation procedure for credit worthiness of customers and proper audit may be conducted for lending process.

**Liquidity Risk:** This arises when the banks may not able to meet their obligations become due without incurring unacceptable losses. It is important for a bank engaged in electronic money transfer activities that it ensures that funds are adequate to cover redemption and settlement demands at any particular time.
5. RISK ASSESSMENT ACTIVITIES STEPS IN E-BANKING

![Diagram of Risk Assessment Activities]

Source: Working paper of S. Vyas

6. CONCLUDING OBSERVATION

The IT and ITES plays an important role in the modern banking system. This enabled a revolution in the banking service sector. The life becomes easy for the customers and the staff also. The transparency in the system helps to generate the goodwill in the system. More and more customers avoid for visiting the banks and they prefer to transaction through e-banking only. However, on the other side the usage of customer is also important. In rural and semi urban areas and even urban areas also not everyone using the electronic banking because of lack of knowledge. There are some associate risks also restraining the customer to adopt this system.
REFERENCES


