



Ebanking for comprehensive EDemocracy: An Indian Discernment

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Abstract

Banking and finance is like oxygen to any democracy. Successful democracy can only be achieved by giving citizen effective, efficient and resourceful money management system (MMS). Internet banking has come the long way since the world's first Internet Bank, The Security First Network Bank has started offering web based transactional services over the net in 1995. At present most of the banks around the world have web presence in form of ATMs, Internet Banking, Support services etc.

Concept of e-governance has gained momentum in last 5 years. India is one of front-runners to achieve fully integrated e-governance by 2010. The first and foremost step by Indian government is to allow foreign direct investment (FDI) and regularise Internet banking in India. In 1998, Indian government formed IT task force for initiating organized and serious efforts towards e-governance. At the same time government was facing pressure to make banking more liberal and come up to world's standards. The result of two events can be seen in 21st century. Lot of

e-governance initiative were taken around the country with varying degree like 'e-seva' initiative by Andhra Pradesh government to provide governmental services to citizen of state. Certainly banking played a pivotal role in successful implementation of these services.

The aim of the paper is to prepare a background for discussion for e-banking and e-democracy. This paper will look for such avenues where banking can play significant role in e-democracy. Lastly, authors will discuss two case studies based on implementation of e-banking in digital democracy. Farmer Service Centre (FSCs) is concept is originated from usage of smart card technology for village farmers. E-seva is a community billing service helping citizen of Andhra Pradesh to access governmental services online.

Keywords: Internet banking, e-governance, e-purse, India

History of Banking and Democracy in India

Indian banking system dates back to 1870 when the Bank of Hindustan was set up. At that time India was not the democratic state, it was ruled by British. Following British colonisation, three banks were set under the Presidency's act of 1876 i.e. Bank of Madras, Bank of Calcutta and Bank of Bombay. Later in 1921 all three banks were merged to single entity known as Imperial Bank of India. Most of the erstwhile princely states also had private banks [Mishra 2001]. Before independence all the major banking functions were carried out by Imperial Bank of India other than foreign exchange service.

India got independence in 1947 and declared as secular, socialist & democratic republic. Reserve bank of India (RBI) was set up and banking regulation act was passed in 1949. The highlight of the act was to bring the RBI under government control. Another major development happened in banking sector in year of 1955 when RBI acquired control of Imperial Bank of India and renamed it as State Bank of India (SBI). SBI then took over control of eight private banks managed by princely states and made its 100% subsidiary. Through mergers and acquisitions number of banks were reduced to 566 in 1951 to 85 in 1960. Nationalisation wave swept through all over country and most of the banks were nationalised by 1969. [Banknetindia 2003].

The Narasimhan Committee report suggested wide ranging reforms for the banking sector in 1992 to introduce internationally accepted banking practices. The amendment of Banking Regulation Act in 1993 saw the entry of new private sector banks [Banknetindia 2003].

Current banking system in India works under the umbrella of RBI, which acts as a regulatory central body. The major participants in the financial system are the commercial banks, the financial institutions (FI's), non-banking financial companies (NBFCs) and other market intermediaries such as stockbrokers and moneylenders. Further commercial banks are divided into public sector commercial banks like State Bank of India, Punjab National Bank, private sector banks like HDFC, ICICI etc and co-operative banks.

Financial Sector Reforms

India wake up to the call of global financial reforms a decade ago. Narasimhan Committee I gives its first recommendation to improve efficiency of the Indian financial sector. The approach was to ensure that 'the financial service industry operates on the basis of operational flexibility and functional autonomy with a view to enhancing efficiency, productivity and profitability' [Mohan 2002]. Narasimhan Committee II gives recommendations focusing on strengthen the structure of banking system and bringing about structural improvement. In 1996, full foreign investment was allowed. In 1997, the Tarapore committee report on capital account convertibility launched a new mandate to support the full convertibility of the rupee by the turn of 2000. These developments were supported by the growing levels of expertise in information technology, venture capitalism and increasing amounts of foreign investments [Reddy 2000].

Government has taken bold steps since 1991 to give banking a whole new shape. Reserve bank of India (RBI) had set up a 'Working Group on Internet Banking' to examines different aspects of Internet

banking. The Group had focussed on three major areas of Internet banking, i.e., (i) technology and security issues, (ii) legal issues and (iii) regulatory and supervisory issues. These issues are addressed in lieu with Information Technology Act 2000.

Integrating E-Banking and E-Democracy

Forth Wave [Toffler] or Internet has penetrated Banking and Finance more than any other sector. Information and Communication Technologies (ICT's) has brought the fundamental revolution in banking sector. There are five key areas in banking where technology has contributed the most are: Product Development, Market Infrastructure, Risk Control and Market Research [Jalan 2002].

Online banks can be classified as Fully Traditional banks, Traditional banks with Internet presence and fully Virtual banks [Agarwal 2002]. The success of Traditional banks with Internet presence is eminent not only in India but also anywhere in the world. India has an extensive banking network, consisting of rural and urban banks. Largely speaking the most of the Indian banks are still public sector banks. New age private sector banks like ICICI, HDFC, UTI are fast becoming choice of citizens in urban areas where technology penetration is high.

Five years from now, majority of the transactional services will be provided by way of Internet. Net-based banking comes at only 10 percent of the operating costs of conventional banking practices and services. As banks are going to play a key role in IT enabled public services involving electronic money transactions we feel that cooperative banks should consider NET-Banking in a big way. [MIT 2001]. A cost comparison study done by IBM global services consulting group clearly shows the advantage of using Internet as medium for banking services over other traditional mediums (fig 1). As per the recent survey, traditional banks spend 60% of the revenue generated to run a branch. Whereas, the cost of providing same services via Internet comes out to be only 15%. This is a huge savings for banks and consumer. Definitely the consumer is the principal beneficiary of the Internet Banking. He will be access the same services with more efficiency at low cost. E banking will have two-fold effect, first, it will reach the remote consumer and second it will create the awareness among consumer about benefits of investment in different financial products. Investment in-turns boost the financial markets and economy. A research shows that a large urban population use Internet for gathering information about different financial products like personal loan, credit card, insurance etc., thus reducing cost of printing, promotion and distribution.

E-governmental services can largely be described as Government-to-Business (G2B), Government-to-Government (G2G), Government-to-Citizen (G2C) and Government-to-Employee (G2E). Role of e-banking is amiable in all of them. Monetary transactions will be more secure, efficient, transparent and fast. This is a win-win situation for all, for banks its low cost, for government is better services, for business it's fast & secure and for citizen it's transparent & efficient.



fig. 1: Cost of Internet Banking over other mode of Banking (Source: IBM global services consulting group)

Potential Areas where E-Banking can be used for successful E-Governance

Online bill payment: Internet banking is frequently used for tax payments, Bill payments like of electricity, water, municipal and telephones. Many public sector companies are offering online payment services, for e.g. MTNL, BSNL etc. Indian Railways has started online reservation system for credit card and debit cardholders. In coming future even persons having Internet bank account can book seat online at ease of their home.

Online brokerage: Strong financial markets are always backbone of any economy. Through e-banking channels stock trading can reach to the people who want to invest their money in financial markets but due to time constraints they are not able to visit the broker. At Asian tigers like Korea and Taiwan 30%

of the stock trading is done online. This will create more dynamic environment and there will be more choice for small investor for his investment. The small investor is not only dependent on government bonds or other fixed deposits schemes.

Online Account Management: Citizens can manage their account online. Anytime banking, it will reduce the time delays and dependency on bank staff and timing of operations.

Anywhere banking: Citizen can deposit/withdraw their money anywhere in country irrespective of the branch where their parent account is held. This will give greater security for travelling business people to deposit money collected from traders/clients. ATMs is another mode of anywhere banking, consumer can use services of ATMs anywhere in country, reducing burden of carrying money while travelling.

Smart Card Solutions: Smart cards will give helpful in bringing governmental services and banking more closer to people. Farmer service centres are example of this initiative. Smart cards will be greater flexibility to users reducing the frauds and malpractices what debit cards and credit cards are not able to offer. On the other hand smart card can be used as identification card for number of other services like driving licence, passport, election id card and other things.

The application of online banking in e-governance can explained by two real life case studies.

Case Study I - Farmer Service Centre (FSC's)

India is an agricultural based economy. Agri industry in India contributes over 30% of the GDP (gross domestic product). Farmer Service Centre (FSC's) is a pioneering concept nourished by government of India. Farmers and rural residents are benefited from a common customer computer data base and smart card, which can be used for remote transactions. There are over 2 billion smart cards in use around the world. These enhancements to the information system will lead to rural customers being able to access their individual records, apply for loans and other transactional services using their smart card. FSC's is a major step to provide more convenience and quality service to rural consumers.

FSC's is one-stop-shop for farmers to make purchases of raw materials, sell there goods and financial transactions. All the information related to farmer is stored on his unique smart card. Smart cards are safe to use. Through smart card farmers can access e-cash, it is a payment system which offers an alternative to paying cash for goods and services. Smart cards can be used for storing and dispensing cash electronically, making bills and coins lesser necessary and farmers can do money transaction in fast, secure way. It transfers funds over phone lines (which are in-turn connected to bank), making it easier to reload farmers smart cards. This acts as a electronic purse that allows person-to-person payments. The telephone or internet link makes payments possible anywhere. Mainly all the activity are controlled and monitored by FSC's, which provide assistance and guidance to farmers to use smart cards for their transactions.

All FSC's are connected to bank/financial institution through high speed, secured internet link. Farmers can top up there e-purse or make deposits to there banks accounts from FSC's. These FSC's also acts as the information centre for the government. Government can gather large amount of accurate rural data, also farmers can get the latest governmental policies like rates of crops, seeds, subsidies etc.

Other than banking transactions, these smart cards can be used in retail payments, vehicle registration, farmer unique ID (citizen ID), e-governance, driving license, health records and for maintaining previous crops records of farmers. These farmer service centres, can be used as central body in monitoring and implementing of welfare schemes such public distribution systems, health, education & training to villagers.



fig. 2: Farmer Service Centre

Case Study II - E-Seva

eSeva - an online community bill payment system, is Andhra Pradesh Government initiative to deliver government information and services online to the state's citizens. The service will provide real-time utility bill payments for water, electricity, telephone, municipal taxes, birth and death certificates, passport applications, permits and licenses, transport department services and other G2C (government-to-citizen) services (<http://www.e sevaonline.com>)

eSeva is a brain child of chief minister Mr. Chandra Babu Naidu and kicked off in 1999 at Hyderabad. In August 2001 19 centres were started in the cities of Hyderabad and Secunderabad. At present there are 35 eSeva centres (with 280 service counters) The whole concept is based on real-time utility payment system, which is very common in western world. eSeva has tied-up with ICICI bank, HDFC bank, Global Trust bank and UTI bank for online payments.

The main data centre for eSeva is at Khairatabad, which is used to store all information, facilitate transaction and update local department servers. The citizen service centre and governmental departments are linked to main WAN through a LAN.

eSeva is based on three-tier network architecture. Transactions are conducted on a real-time basis. Departmental servers are connected to the data centre, which in turn is connected to the eSeva centres. Leased lines, with back-up ISDN lines, connect the departmental servers to the eSeva data centre. Transactions done at the eSeva centres are recorded directly on the server of the department concerned.



fig. 3: E-Seva

Conclusion

It is believed that, in the future, Internet banking will recede in importance as a strategic application to become a competitive necessity that must be adopted by most of the government departments.

India is striding smoothly towards integrated e-governance. Banking in India is supportive, technically advance and vigorous. In next five years situation will be entirely different. Most of the banking and governmental transactions will be web based. This is just a transformation phase towards knowledge economy [Agarwal 2001]. There is a great role to be played by the citizens of the country to adopt e-governance and should not resist to change. Quick adoption will increase the potentiality of success. For the governance of such a big democracy and the emerging pro-active knowledge societies, the central government and state governments will have no choice to constantly improvise to bring in greater efficiency, accountability and transparency in their functioning. At present, only states of Andhra Pradesh, Madhya Pradesh, Karnataka, Rajasthan and Delhi had taken initiatives towards e-governance, whereas other states haphazardly joined the bandwagon by declaring the IT policy with no clear vision. There is a need to monitor such policies at central level. Ministry of Information Technology - Government of India has constituted a central task force to monitor and advise various state governments and departments to adopt ICTs in day to day working.

With the development of asynchronous technologies and secured electronic transaction technologies, more banks and departments are using Internet for transactional and information medium. Users of e-banking can perform common banking tasks such as writing checks, paying bills, transferring funds, printing statements & balance inquiry etc. Internet banking has evolved into 'one stop service and information unit' that promises great benefits to all i.e. banks, consumers, citizens, employees and government. E Banking is poised to become most promising partner in e-governance process. Initiatives such as 'e-seva' and 'FSC's' are the milestones towards achieving comprehensive e-governance.

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