



E-commerce: Issues and challenges in Indian banks

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ABSTRACT: *E-commerce stands for electronic commerce. E-commerce is improving standard among the business community in worlds, about the opportunities offered by E-commerce. E-commerce as part of the information technology revolution became widely used in the world trade in general and Indian economy in particular. With advancements in technology, there have been many changes has been occupied. Indian banks have been playing an essential role with the e-commerce. Present scenario Banks are facing many issues and challenges by the e-commerce.*

In the backdrop of all these developments the present paper makes an attempt to: highlight the challenges of e-commerce in Indian banks, and to understand the issues of e-commerce in Indian banks.

Key Words: *Electronic commerce, Challenges, Issues and Banks*

1. Introduction

In the emerging global economy, e-commerce and e-business have increasingly become a necessary component of business strategy and a strong catalyst for economic development. The integration of information and communications technology (ICT) in business has revolutionized relationships within organizations and those between and among organizations and individuals. Specifically, the use of ICT in business has enhanced productivity, encouraged greater customer participation, and enabled mass customization, besides reducing costs.

With developments in the Internet and Web-based technologies, distinctions between traditional markets and the global electronic marketplace-such as business capital size, among others-are gradually being narrowed down. The name of the game is strategic positioning, the ability of a company to determine emerging opportunities and utilize the necessary human capital skills (such as intellectual resources) to make the most of these opportunities through an e-business strategy that is simple, workable and practicable within the context of a global information milieu and new economic environment. With its effect of leveling the playing field, e-commerce coupled with the appropriate strategy and policy approach enables small and medium scale enterprises to compete with large and capital-rich businesses.

On another plane, developing countries are given increased access to the global marketplace, where they compete with and complement the more developed economies. Most, if not all, developing countries are already participating in e-commerce, either as sellers or buyers. However, to facilitate e-commerce growth in these countries, the relatively underdeveloped information infrastructure must be improved. Among the areas for policy intervention are:

- High Internet access costs, including connection service fees, communication fees, and hosting charges for websites with sufficient bandwidth;
- Limited availability of credit cards and a nationwide credit card system;
- Underdeveloped transportation infrastructure resulting in slow and uncertain delivery of goods and services;
- Network security problems and insufficient security safeguards;
- Lack of skilled human resources and key technologies (i.e., inadequate professional IT workforce);
- Content restriction on national security and other public policy grounds, which greatly affect business in the field of information services, such as the media and entertainment sectors;
- Cross-border issues, such as the recognition of transactions under laws of other ASEAN member-countries, certification services, improvement of delivery methods and customs facilitation; and
- The relatively low cost of labor, which implies that a shift to a comparatively capital intensive solution (including investments on the improvement of the physical and network infrastructure) is not apparent.

2. DEFINITION OF ELECTRONIC COMMERCE

A type of business model, or segment of a larger business model, that enables a firm or individual to conduct business over an electronic network, typically the internet. Electronic commerce operates in all four of the major market segments: business to business, business to consumer, consumer to consumer and consumer to business. It can be thought of as a more advanced

form of mail-order purchasing through a catalog. Almost any product or service can be offered via ecommerce, from books and music to financial services and plane tickets.

3. TYPES OF E-COMMERCE

Classifying Ecommerce Business Based on Nature of Participants. The two most common participants in ecommerce are businesses and consumers. Based on this we can come up with four primary ecommerce types:

- Business to Business Ecommerce (B2B Ecommerce)

In this type of ecommerce, both participants are businesses. As a result, the volume and value of B2B ecommerce can be huge. An example of business to business ecommerce could be a manufacturer of gadgets sourcing components online.

- Business to Consumer Ecommerce (B2C Ecommerce)

When we hear the term ecommerce, most people think of B2C ecommerce. That is why a name like Amazon.com pops up in most discussions about ecommerce. Elimination of the need for physical stores is the biggest rationale for business to consumer ecommerce. But the complexity and cost of logistics can be a barrier to B2C ecommerce growth.

- Consumer to Business Ecommerce (C2B Ecommerce)

On the face of it, C2B ecommerce seems lop-sided. But online commerce has empowered consumers to originate requirements that businesses fulfill. An example of this could be a job board where a consumer places her requirements and multiple companies bid for winning the project. Another example would be a consumer posting his requirements of a holiday package, and various tour operators making offers.

- Consumer to Consumer Ecommerce (C2C Ecommerce)

The moment you think of C2C ecommerce eBay.com comes to mind. That is because it is the most popular platform that enables consumers to sell to other consumers. Since eBay.com is a business, this form of ecommerce could also be called C2B2C ecommerce (consumer to business to consumer ecommerce).

- M-commerce (mobile commerce)

M-commerce (mobile commerce) is the buying and selling of goods and services through wireless technology-i.e., handheld devices such as cellular telephones and personal digital assistants (PDAs). Japan is seen as a global leader in m-commerce. As content delivery over wireless devices becomes faster, more secure, and scalable, some believe that m-commerce will surpass wire line e-commerce as the method of choice for digital commerce transactions. This may well be true for the Asia-Pacific where there are more mobile phone users than there are Internet users.

Industries affected by m-commerce include:

- Financial services, including mobile banking (when customers use their handheld devices to access their accounts and pay their bills), as well as brokerage services (in which stock quotes can be displayed and trading conducted from the same handheld device);
- Telecommunications, in which service changes, bill payment and account reviews can all be conducted from the same handheld device;
- Service/retail, as consumers are given the ability to place and pay for orders on-the-fly; and
- Information services, which include the delivery of entertainment, financial news, sports figures and traffic updates to a single mobile device.

4. IMPORTANCE OF ECOMMERCE

Electronic commerce, or Ecommerce, which literally means business trading through the Internet, has been around the globe since mid 90s. However, until the recent few years, Ecommerce is getting more and more attention from entrepreneur and consumers, both local and international. One of the main reasons is due to the highly successful operations of some well known names on the Internet, such as eBay, Yahoo and Dell. The sales revenue these companies shown in their annual reports are without doubt, one of the biggest factors why Ecommerce is important in the commercial market nowadays.

Ecommerce proved its importance based on the fact where time is essence. In the commercial markets, time plays an important role to both the business and consumers. From the business perspective, with less time spent during each transaction, more transaction can be achieved on the same day. As for the consumer, they will save up more time during their transaction. Because of this, Ecommerce steps in and replaced the traditional commerce method where a single transaction can cost both parties a lot of valuable time. With just a few clicks in minutes, a transaction or an order can be placed and completed via the internet with ease. For instance, a banking transaction can be completed through the Internet within a few minutes compared to the traditional banking method which may take up to hours.

From the business viewpoint, Ecommerce is much more cost effective compared to traditional commerce method. This is due to the fact where through Ecommerce, the cost for the middleperson to sell their products can be saved and diverted to another aspect of their business. One example is the giant computer enterprise, Dell, which practice such a method by running most of their business through internet without involving any third parties. Aside from that, marketing for Ecommerce can achieve a better customer to cost ratio as putting an advertisement on the internet is comparably much cheaper than putting up a roadside banner or filming a television commercial. For Ecommerce, the total overheads needed to run the business is significantly much less compared to the traditional commerce method. The reason due to that is where

most of the cost can be reduced in Ecommerce. For example, in running an Ecommerce business, only a head office is needed rather than a head office with a few branches to run the business.

To both the consumers and business, connectivity plays an important part as it is the key factor determining the whole business. From the business point of view, Ecommerce provides better connectivity for its potential customer as their respective website can be accessed virtually from anywhere through Internet. This way, more potential customers can get in touch with the company's business and thus, eliminating the limits of geographical location. From the customer standpoint, Ecommerce is much more convenient as they can browse through a whole directories of catalogues without any hassle, compare prices between products, buying from another country and on top of that, they can do it while at home or at work, without any necessity to move a single inch from their chair. In global market sense, the appearance of Ecommerce as a pioneer has opened up various windows of opportunities for a variety of other companies and investors. For instance, due to the booming of Ecommerce, more and more resources are being directed into electronic securities, internet facilities, business plans and new technologies mature in the global market and eventually, it will become an essential business plan for a company in order to survive and stay competitive in the ever changing market.

5. OBJECTIVES

- A. To highlight the challenges of e-commerce in Indian banks.
- B. To understand the issues of e-commerce in Indian banks.

6. METHODOLOGY

This study is based on the analysis of the secondary data published in the magazines and various websites.

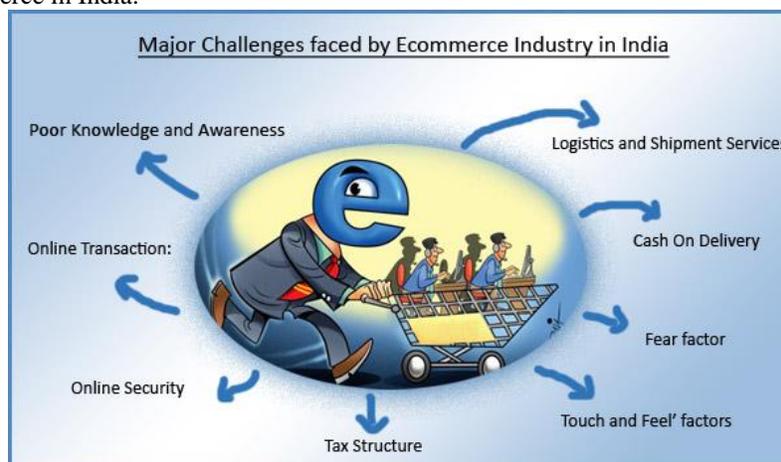
7. REVIEW OF LITERATURE:

Centeno (2004) ¹ argues that speed, the convenience of remote access, 7/24 availability and price incentives are the main motivation factors for the consumers to use internet banking. Durkin, et. al. (2008) ² notes that the simplicity of the products offered via internet banking facilitates the adoption of internet banking by consumers. Calisir and Gumussoy(2008) ³ compare the consumer perception of internet banking and other banking channels and report that internet banking, ATM and phone banking substitute each other. Guerrero, et.al. (2007) ⁴ examine the usage of internet banking by Europeans and their results indicate that ownership of diverse financial products and services, attitude towards finances and trust in the internet as a banking channel influence clients' usage of internet banking.

8. CHALLENGES OF E-COMMERCE IN INDIAN BANKS

The e-commerce industry in India is growing at a remarkable pace due to high penetration of internet and sophisticated electronic devices. However, the recent growth rate of e-commerce in India is far lagging behind than other developed countries. There are many big problems and challenged on the way of an online merchant. Factors like safety and security of online money transaction being the biggest problem along with others have curb the smooth expansion of the online industry in the country.

Although, major portion of e-business sectors have affected by the below mentioned challenges but still there are few online giants like Makemytrip.com, flipkart.com, Snapdeal.com who have overcome the challenges and represents the perfect growth trends of e-commerce in India.



- Poor Knowledge and Awareness: When it comes to ratio of internet consumers, scenario is not so admirable one. Majority of Indian rural population are unaware of internet and its uses. Surprisingly, most of internet savvies or urban population are also suffering from poor knowledge on online business and its functionalities. Very few are aware of the online corruption and fraud and thus darkness still exists. A reliable survey reveals that 50% of Indian online users are unaware of the solution of online security.

- Online Transaction: Most of Indian customers do not possess plastic money, credit card, debit card and net banking system, which is one of the prime reasons to curtail the growth of ecommerce. Nevertheless, in recent years, some of the nationalized banks have started to issue debit cards to all its account holders. This is undoubtedly a positive sign for Indian online entrepreneurs.
- Cash on Delivery: Cash on Delivery (COD) has evolved out of less penetration of credit card in India. Most of Indian E-commerce companies are offering COD as one of mode of payment for the buyers. 30%-50% of buyers are also taking advantage of this mode of payment while making purchase of any product and service over internet. COD has been introduced to counter the payment security issues of online transaction, but this mode has been proving to be loss and expensive to the companies. It is seen that majority of the customers denied to make the payment at the time of delivery of the product. Hence, companies tend to lose the sale along with product transit fees. In order to curb the problem of COD, online companies should take some judicial steps; otherwise basic logic behind the ecommerce business will be at risk.
- Online Security: In case of start up and small business, Business owners are ignoring the importance of authentic software due to budget constraints. They are even failing to take the initial steps to secure and protect their online business through installation of authentic protection services like antivirus and firewall protection, which indeed a crucial step for successful online business players. In India, maximum number of business entrepreneurs used unauthorized software in their server, which usually does not come with upgraded online security. Such pirated software leaves room for virus, malwares and Trojan attacks and it is highly risky task to make online transactions in the systems, which may disclose or leak sensitive details of credit cards and online banking of the users. These kinds of droopiness should be banned in Indian ecommerce sectors. Affiliation to SSL certificate should be imposed as a mandatory action for every owner.
- Logistics and Shipment Services: In India, logistics and courier services required lots of improvement. While, perfect and strong logistics service is one of the key reasons behind the success of any online company, India is lagging far behind in this sector as most of the town and small villages are still not covered under serviceable area of many of the courier and logistic companies. Ecommerce is hampered in a big way owing to the limited services offered by the courier service companies.
- Tax Structure: Tax rate system of Indian market is another factor for lesser growth rate of e-commerce in India in comparison to other developed countries like USA and UK. In those countries, tax rate is uniform for all sectors whereas tax structure of India varies from sector to sector. This factor creates accounting problems for the Indian online business companies.
- Fear factor: Fear of making online payment is a universal psychological factor of Indian customers. With the spread of knowledge on online transactions and its reliability, some percentages of customers have overlooked this fear and they are fearlessly engaging themselves in online shopping. But still, majority of customers are not aware of online transactions and its security. They often reluctant to disclose their credit card and bank details and preferred to stay away from online world of shopping.
- 'Touch and Feel' factors: Indian customers are more comfortable in buying products physically. They tend to choose the product by touching the product directly. Thereby, Indian buyers are more inclined to do ticketing and booking online in Travel sectors, books and electronics. Companies dealing with products like apparel, handicrafts, jewellery have to face challenges to sell their products as the buyers want to see and touch before they buy these stuffs.

9. ISSUES OF E-COMMERCE IN INDIAN BANKS

Establishment of a successful e-commerce business is not limited to merely putting an idea onto a website. There are many more issues that must be addressed by an e-commerce entrepreneur before his/her e-commerce venture becomes a successful one. These include legal issues as well that range from e-commerce compliances to brand promotion and protection. Even the domain name protection strategy is an essential part of successful e-commerce venture. E-commerce is one of the most profitable business ventures in India these days. Not only its present growth is good but even its future and projected growth is tremendous. However, e-commerce in India is also required to be conducted in a legally permissible manner.

A dominant majority of e-commerce venture never survive the second year of their establishment. Further, many e-commerce websites are shut down due to legal violations. For instance, many Bitcoins exchanges in India have temporarily suspended their services due to legal uncertainty in this field. Some of them have even been targeted by law enforcement agencies of India for possible violation of Indian laws.

E-commerce websites operating in India are required to follow many laws of India including the Information Technology Act, 2000 (IT Act 2000). As per the IT Act, 2000 these e-commerce websites operating in India are Internet intermediaries and they are required to comply with cyber law due diligence requirements (PDF) as well.

The legal requirements for undertaking e-commerce in India also involve compliance with other laws like contract law, Indian penal code, etc. Further, online shopping in India also involves compliance with the banking and financial norms applicable in India. For instance, take the example of PayPal in this regard. If PayPal has to allow online payments receipt and disbursements for its existing or proposed e-commerce activities, it has to take a license

from Reserve Bank of India (RBI) in this regard. Further, cyber due diligence for Paypal and other online payment transferors in India is also required to be observed. M-health laws and regulations in India must be followed by those who wish to explore this upcoming and remunerative field.

With the active use of electronic commerce in India the electronic commerce dispute resolution in India is also required to be strengthened. The present litigation system of India is not conducive for the growth of e-commerce in India and online dispute resolution in India is more appropriate for such purposes.

Finally, for those who wish to engage in cloud computing, virtualisation and other Internet based services in India, they comply with techno legal regulations of India. Cloud computing legal and regulatory requirements in India for businesses and entrepreneurs are still evolving. Nevertheless they must be followed by the cloud computing business community of India. Virtualisation and cloud computing service providers in India must not only follow the encryption laws of India but they must also ensure cyber law due diligence in India. This is more so when the cyber law due diligence for companies in India has become very stringent and foreign companies and websites are frequently prosecuted in India for non exercise of cyber due diligence.

In short, the highly profitable e-commerce segment of India must be explored only after complying with the laws governing the respective e-commerce segment. There is no single set of laws and regulations that govern all e-commerce segments and every e-commerce segment is governed by different laws.

CONCLUSION

Banks are responding to opportunities created by the rise of on-line commerce. Many banks have already put in place a cost-efficient electronic access channel for traditional banking products. In addition, a number of banks are planning to offer new products designed specifically for e-commerce. Now a day's banks are playing vital role in the competition towards e-commerce.

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