

Emergence of banking into E-commerce: Symbiosis relationship

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Abstract

The growing e-commerce industry will have a positive spillover effect on associated industries such as logistics, online advertising, media, IT/ITES and last but not the least Banking sector. The Banking Companies Act of 1949, defines banking company as “accepting for the purpose of lending or investment of deposit money from the public, repayable on demand or otherwise and withdraw able by cheque, drafts, order or otherwise”. But, the role of banking today are not limited only as a financial institutions dealing with finance or cash, they are also emerging into trading and responding as a big e-commerce businesses expanding their horizons exponentially. On the other hand e-commerce businesses which are conducted on line over computer networks (B2B >B2C) or Supply chain management - procurement and distribution through the Electronic exchanges are also not remained composed to their plot only. Thought they are non-financial institutions but they do are providing financial services to the customers as the banks do in a current scenario, this change is so flexible and self-aggrandizing, big e-commerce houses and portals are providing their customer with a marvelous products and banking services from what they call it as a e-wallet to sanctioning a loans to the customer’s. On the contrary, banks are providing e-commerce services from direct recharge facility as the simplest example to its customers through mobile and net-banking services securing their future using the already deposited buck’s hence, gaining insight confidence and royalty income from its existing clientele.

Keywords: Banking, E-commerce, Digital India, Online shopping, Payment cards

1. Introduction

Banks as financial institutions plays an important role in the modern economy and financial sector. They are considered as institutions of the land dealing in money credit. In modern economy banks are the major component of money supply. Commercial banks are the creators of credit. Any country’s strength of economy basically depends on its sound and solvent banking system. Modern commercial banks perform a variety of functions. They keep the wheels of commerce, trade and industry always revolving. The word bank in itself when considered, it comes first in mind something about deposits and cash - current, savings or credit card accounts, but this is no longer true for banking sector now, where bank services are customized according to the individual or corporate needs and they can be visualize now as a shopping marts apart from providing agency, utility and subsidiary ministration which are the most important aspects of the basic banking systems establishment ^[1].

Synonymously, the e-commerce business apart from conducting the business on line over communication networks are emerging as a financial institutions in collaborations with renowned banks and a big bargainers attracting and utilizing the non-banker market potential nourishing it with lucrative offers and bids on daily basis. E-commerce transactions have picked up pace in the past year’s or so with several companies offering steep discounts on online shopping which is in favour of banks and the e-commerce companies, generating a huge revenue’s for them in return. Banks as well as the e-trailers are offering different offers like cash back and equated monthly installment (EMI) to encourage customers for card-based payments ^[3].

2. Banks as an E-commerce Business Rialto

Every commercialized bank offers ease of online shopping through them. Bank Advantages E-Commerce products by maintaining account relationships, trusted third parties for transactions ultimately giving faith, sense of security and in gaining insight confidence of the customers and these business, with their strong brand names. Banks in collaboration with online business attracts the non-banking customers and getting huge benefits out of the signed contracts. They are attracting those providing remunerative discounts and benefits on products over the e-commerce portals, marketing their own products, services and hence utilizing them to their fullest potential.

Continuing with a vast vision, banks was started with a very secure and established services like mobile and data card recharge’s on a single touch keeping in view the royalty income in mind as this service is used by everyone now a days and that’s too every month. When it comes to the part of online shopping, they are designing and deploying new e-commerce products through web and mobile apps as shown in fig 1.0. Banks are increasingly functioning as facilitators of on-line commerce than their long-standing role as financial intermediaries.

Numbers of banks are planning to participate in special Internet portals, “supersites” where many sellers will display their product offerings and large numbers of buyers will make successful transactions. Some of these portals will feature a broad range of financial and nonfinancial product offerings; while others will limit their offerings to financial services ^[4].

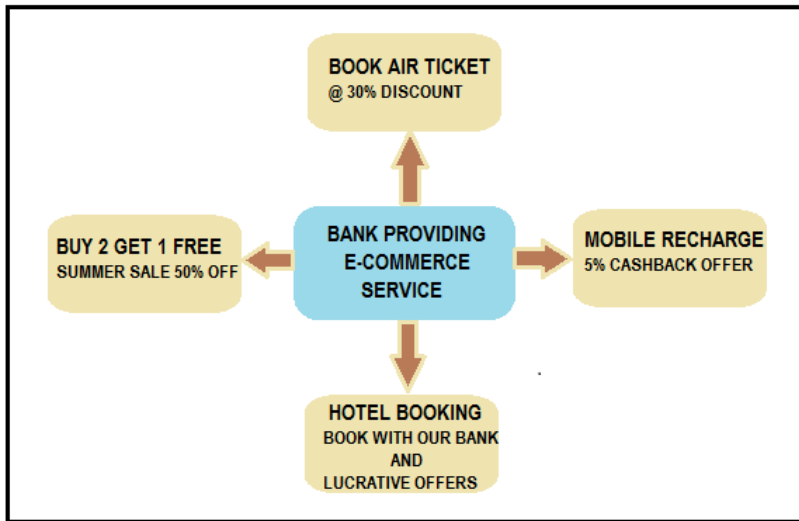


Fig 1: Bank Emerged and Operating E-COMM Business

Fortunately, it is a big opportunity for banks as online shopping is flourishing every moment and number of customers is increasing considerably high at a speed of eye flickering. With banks and credit unions looking to increase revenues and decrease costs, building customer share of wallet is imperative. One of the easiest and most steady sources of new businesses and related revenue is to reach out to current customers for additional business. The most important factor, online shopping of physical goods in India is estimated to reach \$4 billion in 2014, and multiply by over 11 times to \$45 billion by 2020 - reflecting a compound annual growth rate (CAGR) of 50% [5]. The country's internet population is more than 215 million as on 2015, and addition of five million every month is observed, driven by the rapid growth in smartphones, tablets and other facilitating devices. Most banks are cashing in on this opportunity, as it helps them earn revenues and in lowering costs. Banks claimed, every time a card is used online, the issuing bank earns, on an average, 1-1.5% of the amount spent [6]. Banks will see themselves in competition and opportunity for cooperation as well with e-commerce firms.

3. E-commerce as a Non- Banking Financial Institutions

E-commerce biggie's eye banking platform- An intense collaboration could mutually benefit banks and e-commerce companies [7]. State Bank of India a big commercialized bank of the country, partners with Snapdeal to offer's loan to its e-commerce sellers [8].

E-commerce is galloping at a fast pace and India have to take cognizance of it. Just like telecom companies are allowed to apply for payment banks because the customers for both are the same. E-commerce companies are forming joint ventures with banks and are become banking correspondents and in deed there is no physical cash flow but only the numeric figures those are revolving around the accounts (may be credit card account or savings) and the e-wallets holding by both the entities.

Eventually, banks and these portals provide ultimate benefits to the end user and keeping them stick to their collaborative services only. Online shopping a day become an exclusive trend and the such immense success of malls are advocating strongly that the future of big brands aren't immune to the

rising force of e-commerce even established companies like Radio Shack, Sears and Target are feeling the crunch and closing their physical doors [9].

E-commerce and Customer Relationship Management (CRM) jointly worked as a tool [12]. Providing banking services such as loans and EMI to its customers and sellers and increased use of E-commerce makes CRM a necessary component and a strong catalyst for economic development. E-commerce mainly target customers by getting closer to customers, serving them better under a common roof, cost cutting, introducing new product and services and creating new opportunities online for them as shown in fig 2.0. When it comes to the part of payment it has to be done only through the financial institutions [11].

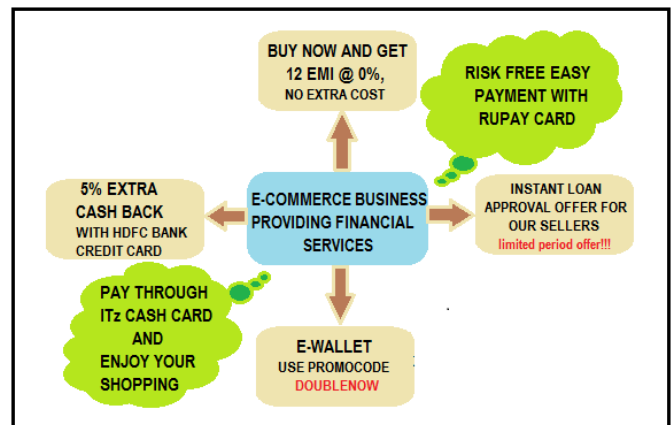


Fig 2: E-Commerce business providing financial services

Contemplating payment services, Itz cash card (a prepaid card with an account number and password, through which one can pay utility bills like electricity, get telephone prepaid card top-ups, do online shopping and book railway tickets etc) and RuPay cards an Indian domestic card scheme conceived and launched by the National Payments Corporation of India (NPCI). It was created to fulfill the Reserve Bank of India's desire to have a domestic, open loop, and multilateral system of payments in India. RuPay Cards (debit cards/ prepaid cards) issued by banks and co-branded credit cards issued by

non-banking financial companies (NBFCs) or any other entity approved by the RBI ^[13].

Social Media contribute with lions share towards generating the global revenue over \$1.2 million every 30 sec. Facebook, Pinterest and Twitter contribute \$5,483, \$4,504 and \$4,308 respectively every half-a-minute to the figure ^[3].

4. Future Initiatives and Compliance to Digital India

Amazon a biggest e-com giant and SBI (State Bank of India) India's biggest commercialized bank have joins hands identifying areas of cooperation to build a digital India. India supports 46.7 million micro, small and medium enterprises (MSMEs), which together employ over 100 million people, according to the annual report of the ministry of MSMEs. The bank has nearly one million MSME customers with a loan book of around Rs. 1, 80,000 Cr. as per the banks reports ^[8].

Last year in the month of May, 2015, SBI also ties up with Snapdeal to offer seller finance. In such contracts rates of interest are determined by the credit worthiness of the seller. Under the scheme, SBI will provide loans to small and medium enterprises at easier interest rates. Data regarding the sellers will be provided by Snapdeal. The country's biggest lender (SBI) had an MSME loan book of approximately Rs 170,000 Cr. as on December 31, 2014 ^[8]. The seller financing scheme are going to help MSMEs - traders, sellers and manufacturers - scale up their operations by catering to their working capital requirements. Snapdeal, there are at least 150,000 sellers associated with Snapdeal. In one year, through its Capital Assist Program, Snapdeal had lent over Rs 250 Cr. to 1,000 sellers. Further, it is targeting Rs 1,000 Cr. loans to SMEs ^[8].

Regulatory Authority of India is giving banking transactions top priority over other messages. The Reserve Bank of India (RBI) is considering ways to link the rapidly growing e-commerce platform to the banking sector, just like it has linked mobile phone operators to the banking system through the soon-to-be launched payment banks. Payments banks are going to provide savings, deposits, payments and remittance services to people who do not have a bank account. The banks, however, they cannot be allowed to lend. Currently, inter-state remittances are Rs. 80,000 Cr. and are growing at an annual rate of 11%, according to RBI estimates ^[14].

The Reserve Bank of India has taken initiatives for greater cooperation between banks and ecommerce companies and it is open for them forming joint ventures with each other and ecommerce firms acting as banking correspondents. Partnership between banks and e-commerce companies are done on the same guidelines as it was in partnership between banks and telecom companies.

Greasing the wheels for unruffled payment services, many payment facilitating systems such as Itz cash card through which various online payments can be carried out very conveniently and RuPay cards are came into existence and launched by the National Payments Corporation of India (NPCI). It was created to fulfill the Reserve Bank of India's desire to have a domestic, open loop, and multilateral system of payments in India. The Suvidhaa pre-paid cards would be issued by Axis Bank in partnership with Suvidhaa Infoserve ^[13].

RBI is considering a proposal to allow pre-paid card issuers to issue rupee cards of over Rs 2 lakh to NRIs and foreigners

coming to India. As of now, RBI has set a limit of Rs 2 lakh that can be loaded on prepaid card issued to foreigners ^[6].

RuPay to launch credit cards in September this year, After increasing its market share to 38 per cent in the debit card segment, RuPay, domestic card payment service provider, will be venturing into the credit card space this September ^[10].

5. Impact, Risks and Risk Management

The biggest challenge for SMEs is to raise financing through formal banking is often they don't have collateral or a long history of financial statements to give confidence to lender.

According to a survey, Forrester Research estimates that online sales will rise by 9.1% by 2019, compared to 6.1% sales in the 2014. This shows a growth rate of approximately around 3% and is a clear sign that e-commerce expansion is gourmandizing the retailers and malls ^[15].

In Britain also the shopping malls really are being killed by Online Shopping the current scenario is pointing about the death of the "High Streets". 12% or so of the stores on said High Street are vacant, 12 % and 2% have gone bust and another 4 % or so are gravely in danger of doing so.

Even though in terms of profitability from E-Commerce banks will be benefited considerably but they have to face significant new risks. Part of these risks is Strategic risks which will surely transform the competitive landscape in banking and finance. They may not be able to survive with the business environment used by the E-commerce portals for flourishing their business; whereas other could be operational risks as well where banks may not be able to cope up with the speed of change in technology that e-commerce is implementing every other day.

Operational risk also involves maintainability, availability and reliability of the online system. Numbers of bank users are much lesser on online banking software as compared to shopping site. Performance of online systems implemented by banks have to come up with the huge traffic for continued smooth functioning of the systems in absence of which the reputation and business of individual banks may be lost forcing the institution to shut their product and services off ^[2]. Though highly encrypted data algorithms are use but still security issue from hackers could not be ignored of fraudulent transactions. The key challenges identified for the sector include the costs of the technology, lack of e-commerce knowledge, budgeting, acquiring IT skilled people and customer service ^[2].

Risk Management

Banks have to build improved Information Systems those are Backed Up with any type of sophisticated trading (retail and wholesale payments model). Emphasis on Electronic Security develop information systems to monitor the financial exposure On the wholesale side, banks have made advances in setting up risk management systems that model how much value is at risk under alternative assumptions about interest rates, the relative values of financial instruments, and other market conditions.

Institutions should be having all terms clearly defined beforehand incase to encounter with any difficulty particularly where legal as well as regulatory action is required to resolve any problems that might arise and with full version coverage of cyber law's.

6. Conclusion and Denouement

E-commerce entities in India could benefit significantly from the banking platform, with the regulator exploring the opportunity to collaborate with leading internet companies. While e-commerce companies are already keen on promoting online payments for purchases on their respective platforms, they are also gradually foraying into offering financial services. A more intense collaboration could mutually benefit banks and e-commerce business.

Banks are already in process of implementing cost-efficient electronic access channel for traditional banking products as well as putting grabbing the online businesses and many are running successfully generating huge revenue's from them. They are developing and offering new highly sophisticated and secured services to the E-commerce industry with joint ventures with them.

Both banks and e-commerce industry will continue their work on this symbiotic relationship adding egg's to one another's beer and eventually customer's, promoting and selling products for each other in compliance with the legal, financial and trading system under a common umbrella. Both the banking and e-commerce sector will perform on hybrid platforms, gaining the tremendous growth in their respective sectors and towards the country economy.

Contrarily, the boisterous growth in both industries will gourmandize the retailers and big mall businesses haphazardly. Disastrously, this loss and risk to relators and big malls is irrevocable leaving behind them with no other option to upgrade, align and synchronize them to the new emerging trends.

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