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### **E-Banking: Opportunities and Threats**

#### **Introduction ::**

Internet banking is changing the banking industry and is having the major effects on banking relationships. Banking is now no longer confined to the branches where one has to approach the branch in person, to withdraw cash or deposit a cheque or request a statement of accounts. In true Internet banking, any inquiry or transaction is processed online without any reference to the branch (anywhere banking) at any time. Providing Internet banking is increasingly becoming a "need to have" than a "nice to have" service. Internet banks have lower operational and transactional costs than do traditional walled banks. Internet banking is not limited to a physical site; some Internet banks exist without physical branches, for example Banknet (UK).

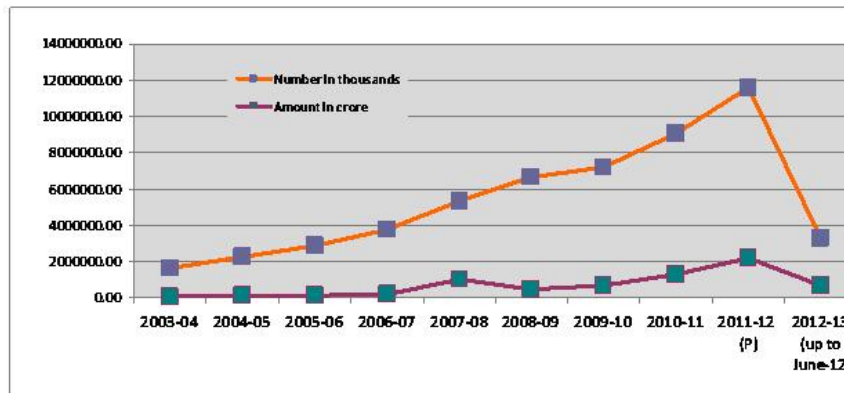
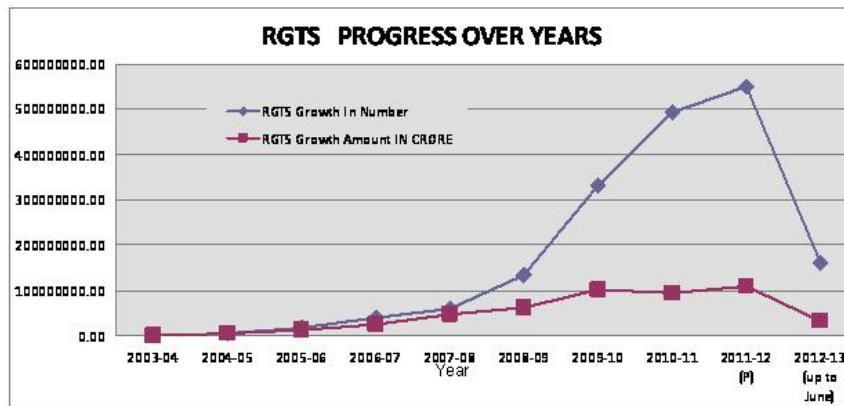
The basic on-line activity is paying bills. Swedbank was the first bank in the world to introduce "Electronic Bill Presentment and Payment (EBPP)" and now handles more than 4 million bill payments a month. Top of Form

Several studies have pointed to the fact that the cost of delivery of banking service through Internet is several times less than the traditional delivery methods. This alone is enough reason for banks to flock to Internet and to deliver more and more of their services through Internet. Not adopting this new technology in time has the risk of banks getting edged out of competition. In India, too e-banking has taken roots. Almost all the private and public sector banks have set up banking portals allowing their customers to access facilities like obtaining information, querying on their accounts, etc. Soon, still higher level of online services will be made available.

At present, the total Internet users in the country are estimated at 10 crores. However, this is expected to grow exponentially to 20 crores by 2020. Only about 1% of Internet users did banking online in 1998. This increased to 16.7% in March 2000 and increased to 38.6% in 2010 while at present around 40% internet users doing Net banking. (idc report) The growth potential is, therefore, immense. Further incentives provided by banks would discourage customers from visiting physical branches.

"Use of the Internet for banking has seen a massive rise in the 2010-11 survey, taking the overall number of bank consumers who use the Net to close 7% of the total bank account holders -- a seven-fold jump since 2007 -- even as for the first time in the past 13 years, branch banking has come down by a full 15 percentage points during the same period," McKinsey & Company India partner and head of its retail banking services Renny Thomas said.

Below graphs indicate the growth in RGTS and NEFT over the years (source: RBI monthly data)



## Features & Advantages of E-banking:

### Some of the distinctive features of e-banking are:

- It removes the traditional geographical barriers as it could reach out to customers of different countries / legal jurisdiction. Though This has raised the question of jurisdiction of law / supervisory system to which such transactions should be subjected.
- It has added a new dimension to different kinds of risks traditionally associated with banking, heightening some of them and throwing new risk control challenges
- Security of banking transactions, validity of electronic contract, customers' privacy, etc., which have all along been concerns of both bankers and supervisors have assumed different dimensions given that Internet is a public domain, not subject to control by any single authority or group of users.
- It poses a strategic risk of loss of business to those banks who do not respond in time, to this new technology, being the efficient and cost effective delivery mechanism of banking services,
- A new form of competition has emerged both from the existing players and new players of the market who are not strictly banks.

### Advantage of Internet banking

- It is convenient, it isn't bound by operational timings, there are no geographical barriers and the services can be offered at a miniscule cost."
- Through Internet banking, one can check his/her transactions at any time of the day, and as many times as he/she want to
- Reserve Bank of India has taken the initiative for facilitating real time funds transfer through the "Real Time Gross Settlement (RTGS)" System. Under the RTGS system, transmission, processing and settlements of the instructions are done on a continuous basis. Gross settlement in a real time mode eliminates credit and liquidity risks.
- With the process of dematerialisation of shares having gained considerable ground in recent years, banks have assumed the role of depository participants. In addition to customers' deposit accounts, they also maintain demat accounts of their clients. Customers are free to transfer

money from bank account to trading account and vice-versa at any time.

- Penalty due to non-payment of bill is not new to anyone of us. And quite obviously, who likes the long procedure of writing a cheque, standing in a long queue and then ensuring that the particular amount is available in your bank account? Similarly, one who is on business tour for at least 25 days a month finds it difficult to clear his dues on time because of his busy schedule.
- He, like many of us, was possibly not aware of the online services, banks are offering these days. With just a click, all his dues would have been cleared long back. However, it's never too late to mend.
- 'Stop payment' done through Internet banking will cost nominal or no extra cost but when done through the branch, the bank may charge Rs 50 to 100 per cheque plus the service tax.
- In a traditional method, one get quarterly statements from the bank and or have to stand in queue for pass book entry and if one request for a statement at his/her required time, it may turn out to be an expensive affair. The branch may charge Rs 25 per page, which may includes only 10- 30 transactions. Moreover, the bank branch would take 3-7 days to deliver it at ones doorstep.
- If the fund transfer has to be made outstation, the bank would demand outstation charges. Whereas with the help of online banking, it will be absolutely free and consumed very less time.

### **OPENING AN ACCOUNT:**

Customers, who have existing accounts at their Physical banks and want to begin using electronic banking services, may simply apply to their Bank for a password for Internet banking. Once they have joined the system, customers have electronic access to all of their accounts at the bank some banks providing Net banking password hand to hand. (eg. SBI).The banks providing Internet banking service, at present are only willing to accept the request for opening of accounts. The accounts are opened only after proper physical introduction and verification. This is primarily for the purpose of proper identification of the customer and also to avoid "benami accounts" as also money laundering activities that might be undertaken by the customer. Supervisors world over, expect the Internet banks also to follow the practice of 'know your customer' (KYC).

### **Services availed through E-Banking.**

#### **Bill payment service**

One can facilitate payment of electricity and telephone bills, mobile phone, credit card and insurance premium bills as each bank has tie-ups with various utility companies, service providers and insurance companies, across the country. To pay the bills, one has need to do is complete a simple one-time registration for each biller. You can also set up standing instructions online to pay your recurring bills, automatically. Generally, the bank does not charge customers for online bill payment.

#### **Fund Transfer**

One can transfer any amount from one account to another of the same or any another bank. Customers can send money anywhere in India. Once you login to your account, you need to mention the payees's account number, his bank and the branch. The transfer will take place in a day or so, whereas in a traditional method, it takes not less than three working days.

#### **Credit card customers**

With Internet banking, customers can not only pay their credit card bills online but also get a loan on their cards. If you lose your credit card, you can report lost card online.

#### **Railway pass , Railway and Air Ticket booking**

This is something that is in the interest all the aam janta. Indian Railways has tied up with some premier banks and one can now make his/her railway pass for local trains online. The pass will be delivered at ones doorstep.

#### **Investing through Internet banking**

One can now open FD/RD account online through funds transfer. Investors with interlinked demat account and bank account can easily trade in the stock market and the amount will be automatically debited from their respective bank accounts and the shares will be credited in their demat account. Moreover, now banks even give the facility to purchase mutual funds and bonds directly from the online banking system.

**Recharging prepaid phone**

Now just top-up prepaid mobile cards by logging in to Internet banking. By just selecting his/her operator's name, entering mobile number and the amount for recharge, ones phone is again back in action within few minutes.

**Shopping**

With a range of all kind of products, one can shop online and the payment is also made conveniently through his/her account.

**Donations**

One can made donations to famous siddhivinayaka or Tirupati balaji or Shirdi's Sai Baba temples or can make donations on line to various NGO's etc.

**Risks, Issues & Security Precautions:**

- Customers should never share personal information like PIN numbers, passwords etc with anyone, including employees of the bank. It is important that documents that contain confidential information are safeguarded.
- PIN or password mailers should not be stored, the PIN and/or passwords should be changed immediately and memorized before destroying the mailers.
- Customers are advised not to provide sensitive account-related information over unsecured e-mails or over the phone. Take simple precautions like changing the ATM PIN and online login and transaction passwords on a regular basis. Also ensure that the logged in session is properly signed out.
- Always check 'last logged': Most banks have a 'last logged in' panel on their websites. If your bank has it, check the panel whenever you log in. If you notice irregularities (like you are logging in after two days, but the panel says you logged in that morning!), report the matter immediately to your bank and change your password right-away.
- Don't leave the PC unattended after keying in information while transacting on the website. Avoid accessing your bank online at cyber cafes or on a share or public computer. Also, avoid locations that offer online connections through wireless networks (Wi-Fi), where privacy and security are minimal.
- Internet is not an unmixed blessing to the banking sector. Along with reduction in cost of transactions, it has also brought about a new orientation to risks and even new forms of risks to which banks conducting e-banking expose themselves
- These concerns can be broadly addressed under three broad categories, viz, (i) Legal and regulatory issues, (ii) Security and technology issues and (iii) Supervisory and operational issues. Legal issues cover those relating to the jurisdiction of law, validity of electronic contract including the question of disclaimer, gaps in the legal / regulatory environment for electronic commerce. On the question of jurisdiction the issue is whether to apply the law of the area where access to Internet has been made or where the transaction has finally taken place. Allied to this is the question where the income has been generated and who should tax such income. There are still no definite answers to these issues.

**Operational risk**, also referred to as transactional risk is the most common form of risk associated with e-banking. It takes the form of inaccurate processing of transactions, non enforceability of contracts, compromises in data integrity, data privacy and confidentiality, unauthorized access / intrusion to bank's systems and transactions etc. Such risks can arise out of weaknesses in design, implementation and monitoring of banks' information system. Besides inadequacies in technology, human factors like negligence by customers and employees, fraudulent activity of employees and crackers / hackers etc. can become potential source of operational risk. Often there is thin line of difference between operational risk and security risk and both terminologies are used interchangeably.

- A breach of security could result in direct financial loss to the bank. For example, hackers operating via the Internet could access, retrieve and use confidential customer information and also can implant virus. This may result in loss of data, theft of or tampering with customer information, disabling of a significant portion of bank's internal computer system thus denying service, cost of repairing these etc.
- Other related risks are loss of reputation, infringing customers' privacy and its legal implications etc. Thus, access control is of paramount importance. Controlling access to banks' system has

become more complex in the Internet environment which is a public domain and attempts at unauthorized access could emanate from any source and from anywhere in the world with or without criminal intent.

- In addition to external attacks banks are exposed to security risk from internal sources e.g. employee fraud. Employees being familiar with different systems and their weaknesses become potential security threats in a loosely controlled environment. They can manage to acquire the authentication data in order to access the customer accounts causing losses to the bank.
- Identity of the person making a request for a service or a transaction as a customer is crucial to legal validity of a transaction and is a source of risk to a bank. A computer connected to Internet is identified by its IP (Internet Protocol) address. There are methods available to masquerade one computer as another, commonly known as 'IP Spoofing'. Likewise user identity can be misrepresented. Hence, authentication control is an essential security step in any e-banking system.
- Internet banking is going to intensify the competition among various banks. The open nature of Internet may induce a few banks to use unfair practices to take advantage over rivals. Any leaks at network connection or operating system etc., may allow them to interfere in a rival bank's system.

### **Internet banking frauds:**

The Internet is in the public domain whereby geographical boundaries are eliminated. Cyber crimes are therefore difficult to be identified and controlled. In order to promote Internet banking services, it is necessary that the proper legal infrastructure is in place. Government has introduced the Information Technology Bill, which has already been notified in October 2000. Section 72 of the Information Technology Act, 2000 casts an obligation of confidentiality against disclosure of any electronic record, register, correspondence and information, except for certain purposes and violation of this provision is a criminal offence.

### **Phishing:**

A person's personal details are obtained by fraudsters posing as bankers, who float a site similar to that of the person's bank. They are asked to provide all personal information about themselves and their account to the bank on the pretext of database up-gradation. The number and password are then used to carry out transactions on their behalf without their knowledge. Typically, a phishing email will ask an online banking customer to follow a link in order to update personal bank account details. If the link is followed, the victim downloads a program which captures his or her banking login details and sends them to a third party

### **Key Challenges & Conclusion**

- 60 % population in the country do not have a bank account
- Only 10 % bank account holders are using Net Banking

Banking is essentially an art of managing people, be it customers or staff. In a competitive environment, customers have to be treated as kings. Thus, delivering financial services to the satisfaction of customer, and prompt redressal of complaints of customers, if any, are very important. The bankers should also take pro-active actions to increase customer awareness with regard to charges applicable to the financial services and the available redressal mechanisms. It also has to be ensured that the products cover all segments of the population and provide an incentive to adopt these products. The regulatory process would support all orderly development of new systems and processes, within the legal mandate. Hope this Conference will deliberate on all these issues especially how the aam aadmi can be provided cost-effective, safe, speedier and hassle free payment and settlement products and solutions. Thus, in sum, banking affects all of us. Our lives are dependent on the banking sector in one way or another, directly or indirectly. It is the life-blood of the economy, a contamination of the same can affect any sector or region of the economy. The challenge before all the stakeholders including banks and non-bank players, IT vendors, other service providers, etc. is how to introduce such a next generation payment and settlement system and solutions that is needed to take the country into the golden era of 21st century. This time, it is worth to recall the slogan given by Hon CM of Gujarat shri Narendra Modi: IT + IT = IT (Information Technology + Indian Talent = India Tomorrow).

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Dr.Meenakshi Somani  
M.Com., Ph.D., PGD(Yoga)  
734-B-1, Vastunirman Society, Sector 22,  
Gandhinagar-382024

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