

Risk Associated with E-Banking: An Analytical Study

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ABSTRACT

Electronic Banking is the new form of traditional banking. With the passage of time the concept of traditional bank has been changed due to the new innovations of technology throughout the globe. It refers to the use of electronic route for banking product, services and is the part of electronic finance. Rapid change or development of Information Technology, parallelly the risks have been grown. E-banking has come with number of risks due to its nature. The risks of technological changes have to be observed carefully. There is always risk of fraudulent in Internet and it is tending to hackers.

Introduction of this research paper briefly addresses the meaning of Electronic Banking. Then, discuss about the risk which are associated with E-banking and its type. It also traces the Basle Committees Electronic Banking Group which has identified fourteen Risks Management Principles for sound risk management in e-banking.

1. Introduction

E-banking is another type of traditional banking product as it characterized as the automated delivery and gives benefits straight forwardly to the customer through electronic, intuitive correspondence channels.¹ Web or e-banking implies any individual with the assistance of PC and a program can be associated with their bank's site to operate any of the banking functions. E-banking has been characterized in law dictionary as banking activities approached by utilizing a PC, utilizing modems and phones.² In e-banking, 'e' represents electronic and the banking has been characterized as 'an acknowledgment of cash from the people, for purpose of lending or speculation of cash, which is withdraw able by money order, draft or otherwise and banking by utilizing electronic device is e-banking.³ Electronic banking can be characterized as the utilization of electronic conveyance route for banking product and administration and is a subset of electronic fund. The most essential electronic conveyance channels are the web programmed teller machine, wireless communication system and telephone banking. E-banking fundamentally carried out by methods of web.

2. Risk Related with E-Banking

Different risks are being present in E-Banking as contrast to traditional banking. These risks are progressively set apart in the action of web banking. Firstly, the risks of innovative changes must be carefully viewed. This is fundamental to improved technological and remain cost operative and customer familiar. The banks must be cautious about risks engaged with such contract. Actually, it will be vital for the extension of Net banking. Another essential area will rise out of cross-boundary suggestion as Net Financial breaks the geographical frontier. Forcing regulatory conditions on such

exchanges will be a troublesome work.⁴ Risks can be grouped into two classifications: Financial risks and non financial risks. Financial risks perpetrate misfortune on a bank direct, while non financial risks influence the financial position in an indirect way. Market, credit, and operational risks are financial risks since they directly affect financial related position on bank. For instance if the market estimation of a security buy by the bank falls beneath the obtaining value, the bank will bring about a loss if it sells security in the market. Reputation risks, Legal risks, Money laundering risks, Technological risks and Control risks are non financial risks since they unfavorably influence the bank in an indirect way. Business openings lost, and therefore salary lost, because of negative advertisement against a bank that impedes its reputation, or indemnity to a customer in light of an unfavorable act from an official courtroom against the banks, are instance of non financial risks.⁵

a. Operational risks: The Operational risks appear as mistaken processing of transaction, known as enforceability of agreements, organizations in information respectability, information protection and privacy, unapproved access to banks framework and transaction etc. Such risks can rise out of shortcoming in plan, execution and checking of banks information system. Next to insufficiencies in innovation, human factor like carelessness by customer and workers, false exercises of representatives and hackers/programmer etc. can wind up potential authority of operational risks. Frequently there is small line of contrast between operational risks and security risks and the two wordings are utilized interchangeably.⁶

While the executive's forms are ordinarily settled in banks to managed credit risks, market risks, and security risks,

¹Neelam C. Gulati, *Banking and Insurance Principles and Practices* 94 (Excel Books, New Delhi, 1st edn., 2013).

²P. Aiyar Ramnath, *Advanced Law Lexicon* 1561 (Nagpur, Wadhwa and Co, 4th edn., 2013).

³Section 6 of Banking Regulation Act, 1949.

⁴Dr. R.K Sharma, Sashi K. Gupta and, Jagwant Singh, *Banking and Insurance*, 14A.4 (Kalyani Publishers, New Delhi, (2012).

⁵Amalendu Ghosh, *Managing Risks in Commercial and Retail Banking*, 2, John Wiley & Sons (Asia) Pte. Ltd. Singapore (2012).

⁶R.K. Gupta, *Banking law and practice*, 1.2292 (Model Law Publication, Allahabad, 2nd edn., 2008).

absence of systems for capability and the board of operational risks in an electronic banking condition is a reason for concern.⁷

b. Security risks: The issue identified with the security has turned out to be one of the significant worries for banks. An expansive gathering of customers will not work for e-banking equipment because of vulnerability and security concerns.⁸ Security risks emerges because of unapproved access to banks critical data stores like bookkeeping framework, risk administration framework, portfolio executives framework etc. A break of security may outcome in direct financial misfortune to the bank.⁹

c. System Architecture and Design: Proper framework design and control is a critical factor in overseeing different sorts of operational and security risks. Banks aspects the risks of wrong decision of innovation, inappropriate framework structure and insufficient control processes. Various conventions are utilized for correspondence accross Web. Every convention is intended for specific sorts of information exchange. A framework permitting correspondence with every one of the conventions state HTTP (Hyper Content Exchange Convention), FTP (document Exchange Protocoles), telnet etc is more inclined to assault than one intended to allow HTTP, decision of suitable innovation is a potential risks banks face.¹⁰

d. Reputational risks: This is another sort of systematic risks and is making concern to E-banking customer.¹¹ It is the risk of getting negative people supposition which may result in a basic loss of financing or customer. Such risks emerge from banks possess activities or because of third party activity, which influence significant loss of public trust in the bank capacity to perform functions or hamper bank and customer relationships. It is the risks related to the income and investment cause by the unenthusiastic public view.¹²

e. Legal risks: This risks emerges from infringement or non-adaptation with laws, rules, guideline, or when the legitimate right and commitment of a gatherings to an exchange are not settled. Or then again the issues emerge when there is no regulatory framework, when banks offer electronic administrations to different nations and bound together lawful frame in worldwide dimension does not exist.¹³ Giving the relative new nature of web banking, rights and commitments now and again are dubious and pertinence of laws and principles is unsure or ambiguous, subsequently cause legal risks.¹⁴

⁷Jayaram Kondabagil, *Risk Management in Electronic-Banking: Concept and Best Practice*, 12, John Wiley & Sons (Asia) Pte. Ltd. Singapore 2007.

⁸Dr. Lekshmi Bhai.P.S, "E-Bankingin India-Problems and Prospects", vol 5, ISSN No: 2393-8374, ISSUE 1, 79, (2018).

⁹Supra note 7, at 1.2293.

¹⁰Id.

¹¹Bhavna Bajpai, *E-Banking Management: Impact, Risks, Security*, available at: https://www.academia.edu/324780/E-Banking_Management-Impact_Risks_Security. (Visited on 20th Feb 2019).

¹²Olulofabia Osunmutiwa, "Online Banking and the Risks Involved", *RJRT*, ISSN: 2041-3106, 52 (2013).

¹³Virender Singh Solanki, "Risks in E-Banking and their Management", vol.1, *IJMFSMR*, ISSUE 9, ISSN: 2277-3622, 169 (2012).

¹⁴Supra note 7, at 1.2294.

f. Money laundering risks: As Web banking exchanges are directed, the banks may think that it's hard to apply traditional technique for distinguishing and preventing inadmissible crimes. Utilization of illegal tax avoidance may not be appropriate for any types of electronic payments. This may led to legitimate approval for resistance with "Know Your Customer" laws. To stay away from this, bank need to structure appropriate customer ID and screening method, develop adult trails, outline arrangements and methodology to site and document suspicious exercises in Web exchange.¹⁵

g. Cross border risks: Web banking is intended to broaden its banks and customer all through the world. Such market extension can go past national boundaries which cause different risks. It incorporates lawful and administrative risk, as there might be new about the lawful prerequisite in certain nations and jurisdiction ambiguity as for the obligations of various national authorities. Cross border transaction emphasizes credit risk, since it is hard to assess on application for advance from a customer in another nation contrasted with a client from a natural customer basis. Banks tolerating outside monetary standards in installment for electronic cash might be exposed to advertise chance on account of development in foreign exchange scale.¹⁶

h. Strategic risks: This risk is mostly connected with Board and the management decision or the presentation of another product or administration. In the e-banking setting, utilization of innovation can make key risks when the executives does not enough arrangement for management and monitor the execution of innovation related products, administrations, procedures, and conveyance channels.¹⁷ Level of this relies on how well the foundation has tended to the different issue identified with improvement of a strategy, accessibility of adequate assets to support this arrangement, validity of the seller and dimension of the innovation utilized in contrast with the accessible innovation and etc.¹⁸

i. Internet Rate risks: The banks managing electronic cash face financing cost risk in light of unfriendly development in loan fees making decline in estimation of advantages relative outstanding electronic cash liabilities.¹⁹

j. Market risks: The banks additionally face market risk due to misfortunes in on-and-of accounting report positions emerging out of developments in market costs including foreign trade rates.²⁰

3. The Basle Committees Electronic Banking Group

The Basle Committee on Banking Surveillance has taken note of these issues. In 1999, it constituted Electronic Banking Group (EBC) having representation of 17 central banks. The task for the group is to improve management of risk guidance for web banking. It has identified fourteen Risk Management

¹⁵Id.

¹⁶Supra note 7, at 1.2294.

¹⁷Id.

¹⁸Supra note 7, at 1.2295.

¹⁹Id.

²⁰Id.

principles for sound risk management in e-banking.²¹ However, the principles are not angle on the basis of priority or importance. If only because such weighting capacity changes throughout time, it is desirable to remain unbiased and abandon such prioritization.²²

A. Board and Management Oversight (Principles 1 to 3): which is used to achieve adequate analysis, monitoring and control of activities in electronic banking which refers to risk management where these activities must be fully implemented within the framework of all the overall strategy of banks operations.²³

1. Efficient administration supervision of e-banking activities.
2. Establishment of inclusive security governs process.
3. Inclusive due diligence and administration supervision process for outsourcing relationships and other third party dependencies.

B. Security Controls (Principles 4 to 10): security controls where it of particularly important to create a data base which will contain data on performed transition through e-banking and their entire records. Moreover, it is important to mention the issue of confidentiality of information about banks, proper control of authorization within e-banking system, authorization of client using the services within the system of e-banking, etc.²⁴

1. Authentication online banking customers
2. Accountable and Non refusal for online-banking transaction.
3. Suitable measure to assure separation of duties.
4. Proper endorsement authority within applications, online-banking system and database.
5. Data coherent in online-banking transactions, information and reports.
6. Incorporation of clean audit action for online-banking transactions.
7. Secrecy of crucial information of banks.

C. Legal and Reputational Risk Management (Principles 11 to 14): which refers to requirement set to bank in relation to achieving a certain level of trust and safety with provision of services of electronic banking and protection of all kinds data from misuse.²⁵

1. Proper transparency for online-banking facility.
2. Secrecy of customer data.
3. Event planning, ability and business connection to assure opportunity of online-banking services and methods.
4. Event response planning.

These principles will guide all the central banks, including RBI when e-banking expands in future. The face of banking is changing very fast.²⁶

4. Conclusion

In E-Banking, 'e' represents electronic and the banking has been characterized as 'an acknowledgment of cash from the public, for reason for loaning or investment of cash, which can be withdrawal with a cheque, draft or by utilizing electronic device is e-banking. Risks related with banking implies to the inherent loss that may endure to a bank because of the incident of certain occasions. E-banking represents some different risks when contrasted with the customary banking. It is due to the rapid growth in Information Technology.

Risks related with e-banking act carry out both cross-boundary and domestic, so to minimize it banks should adopt suitable security measure to maintain the confidentiality of data, disclosure of information in a appropriate manner and also have an internal grievance redressed system to adopt a fraud free culture of banking. Regulatory authorize body are required to develop a methods of identification of risk and also managed and controlled such risk.

²¹Supra note 5.

²²Mircea Georgescu, *Some Issue About Risk Management for E-Banking*, 9 (2006) available at: https://paper.ssrn.com/sol3/paper.cfm?abstract_id=903419 (Visited on 20th Feb 2019).

²³Dr Dragan Stojanovic and M. Sc. Marko Krstic, *Modern Approaches and Challenges of Risk Management in Electronic Banking*, 4, (2017) available at: <http://vpts.edu.rs/sed17/CD%2520Proceeding%25202017?proceeding>. (Visited at 20th Feb 2019).

²⁴Id.

²⁵Supra note 28, at 4.

²⁶Supra note 5.