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## **DIGITAL BANKING: DRIVE IN FAST WAY**

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### **ABSTRACT**

*Online banking, also known as internet banking, Digital Banking or e-banking or virtual banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website. The digital banking system will typically connect to or be part of the core banking system operated by a bank & is in contrast to branch banking which was the traditional way customers accessed banking services.*

*Now-a-days banking is known as innovative banking. Developments in Information technology have given a rise to innovations in the product & service designing & their supply in the banking sector & finance industries, customer services & satisfaction are their Centre point of all the efforts. It is an important area of banking where Information Technology have a positive influence so on substitutes for traditional funds movement services. With the advent of online banking, electronic funds transfer & other similar products & services for funds transfer within quick time which was impossible a few years age. With networking & inter connection new problems are taking place related to security, privacy & confidentiality to e-banking transactions.*

**Keywords:** Online Banking, Fund transfer.

## INTRODUCTION

The conventional functions of banking are confined to accept deposits & to lend money through loans & advances. Now-a-days banking is known as innovative banking. Use of Information technology has given rise to innovations in the product & service designing & their delivery in the banking sector & finance industries, customer services satisfaction are their principle work. Present banking scenario has come up with a lot of new initiatives which are oriented to provide a better customer service & facilities with the help of information technology.

Banking sector focuses the larger economy its linkages to all sectors make it representative for what is going on in the economy. Indian banking sector, presently has the same sense of opportunity that is evidence in the Indian banking market & economy. The current developments in the worldwide markets offer too many opportunities to the banking sector. In today's competitive banking world improvement day by day in customer services is the most significant area for their growth & development. Banking company

offers so many changes to access their banking & other services.

Banks are playing a vital role in the economic development country. Economic development of a country involves investment in various sectors of the economy. The bank collects small savings from the public for investment in different projects. In generally the banks performs various agency works for their customers & helps economic development of the country. The purchase & sales of investment securities, making payments, equity & preference shares, receiving subscription funds & collection of utility bills for the Government department therefore banks are saving time & energy of their busy customers. Bank also arranges foreign exchange for the business transactions of customer with other countries. Banking sector is not only collecting funds but also serve as a financial guide to the customer for the investment of their money.

## LITERATURE REVIEW:



Following the boom of new technologies such as the internet & mobile phones in practice, e-banking has also been the focus of numerous academic papers. Adoption, perception & usage of internet banking by consumers is one of the topics heavily examined in e-banking literature.

Aladwani, (2001) Potential customers mentioned Internet security, online banking regulations, consumers' privacy, & bank's

reputation as the most important future challenges of online banking adoption.

Polatoglu & Ekin, (2001) Perceived risk was one of the major factors affecting consumer adoption, as well as customer satisfaction of online banking services.

### THE IMPORTANCE OF DIGITAL BANKING IN BUSINESS:

Businesses rely on efficient & rapid access to banking information for cash flow

reviews, auditing & daily financial transaction processing. E-banking offers ease of access, secure transactions & 24-hour banking options. From small start-up companies to more established entities, small businesses rely on e-banking to eliminate runs to the bank & to make financial decisions with updated information. In an information-driven business climate, companies who do not use e-banking are at a competitive disadvantage.

#### **Productivity:**

E-banking leads to productivity gains. Automating routine bill payments, minimizing the need to physically visit the bank & the ability to work as needed rather than on banking hours may decrease the time involved in performing routine banking activities. Additionally, online search tools, banking actions & other programs can allow staff members to research transactions & resolve banking problems on their own, without interacting with bank employees. In some cases, month-end reconciliations for credit card transactions & bank accounts can be automated by using e-banking files.

#### **Lower Banking Costs:**

Banking relationships & costs are often based on resource requirements. Businesses that place more demands on banking employees & need more physical assistance with wire transfers, deposits, research requests & other banking activities often incur higher banking fees. Opting for e-banking minimizes business overhead & banking expenses.

#### **Reduced Errors:**

Utilizing e-banking reduces banking errors. Automation of payments, wires or other consistent financial activities ensures payments are made on time & may prevent errors caused by keyboard slips or user error. Additionally, opting for electronic banking eliminates errors due to poor handwriting or mistaken information. In many cases, electronic files & daily reviews of banking data can be used to double or triple check vital accounting data, which increases the accuracy of financial statements.

#### **Reduced Fraud:**

Increased scrutiny of corporate finances through audits & anti-fraud measures

requires a high level of visibility for all financial transactions. Relying on e-banking provides an electronic footprint for all accounting personnel, managers & business owners who modify banking activities. E-banking offers visibility into banking activities, which makes it harder for under-the-table or fraudulent activities to occur.

**Convenience:**

By banking online, you can carry out your banking activities whenever you want. Online banking is a 24 hour service, so you are no longer tied to the branch's hours. On top of that, you don't have to take the time to travel to the branch & wait in the inevitable lines, thus giving you more time to do what you want.

**Mobility:**

Online banking can be done from anywhere, as long as you have an Internet connection. Even if you are away for business or a vacation, you can still take care of your banking needs. Some banks, such as Bank of America, have even created mobile applications that make banking easier for those with a Smartphone like the Apple

iPhone or iTouch or a Blackberry. With this added mobility, you'll no longer have to worry about missing a payment or any other time sensitive banking activity.

**No fees:**

Because an online bank doesn't have to worry about funding an actual bank location with all of those additional costs, fees can be reduced & are often non-existent. Those checking & savings accounts that are offered by completely online banks usually have no fees at all.

**Higher Interest Rates:**

Again, due to a lack of costs associated with running an online bank, higher interest rates are often offered for their accounts. For higher interest rates, you would usually need to bank with a completely online account.

**Online Statements:**

Most online banks try to be as paper-free as possible. Most statements & correspondence is done online, reducing the amount of paper used & sent out to you. This again will help reduce the costs of the online bank. As an added bonus, this makes online banking a

great environmental choice. Be warned, some banks do charge if you do want a paper copy of something.

### **Automatic Bill Paying:**

With automatic bill paying, you can automate paying your monthly bills. Of course, you need to set this up, but it will be worth it in the long run. First, with your bills being paid automatically, you shouldn't ever miss a payment. Plus, by not having to worry about the time taken to mail in your payment, you can keep your money in your account for a bit longer, earning you a little bit more interest – & you save on postage too. Finally, you can actually do away with using checks & you also save on paper used, making this a much greener way of banking also.

### **Real Time Account Information:**

Because you can access your accounts anytime, you can get up to date, real time information on the money in your accounts. This will allow you to better manage your money & gain the most from different accounts, interest rates & services provided by the bank.

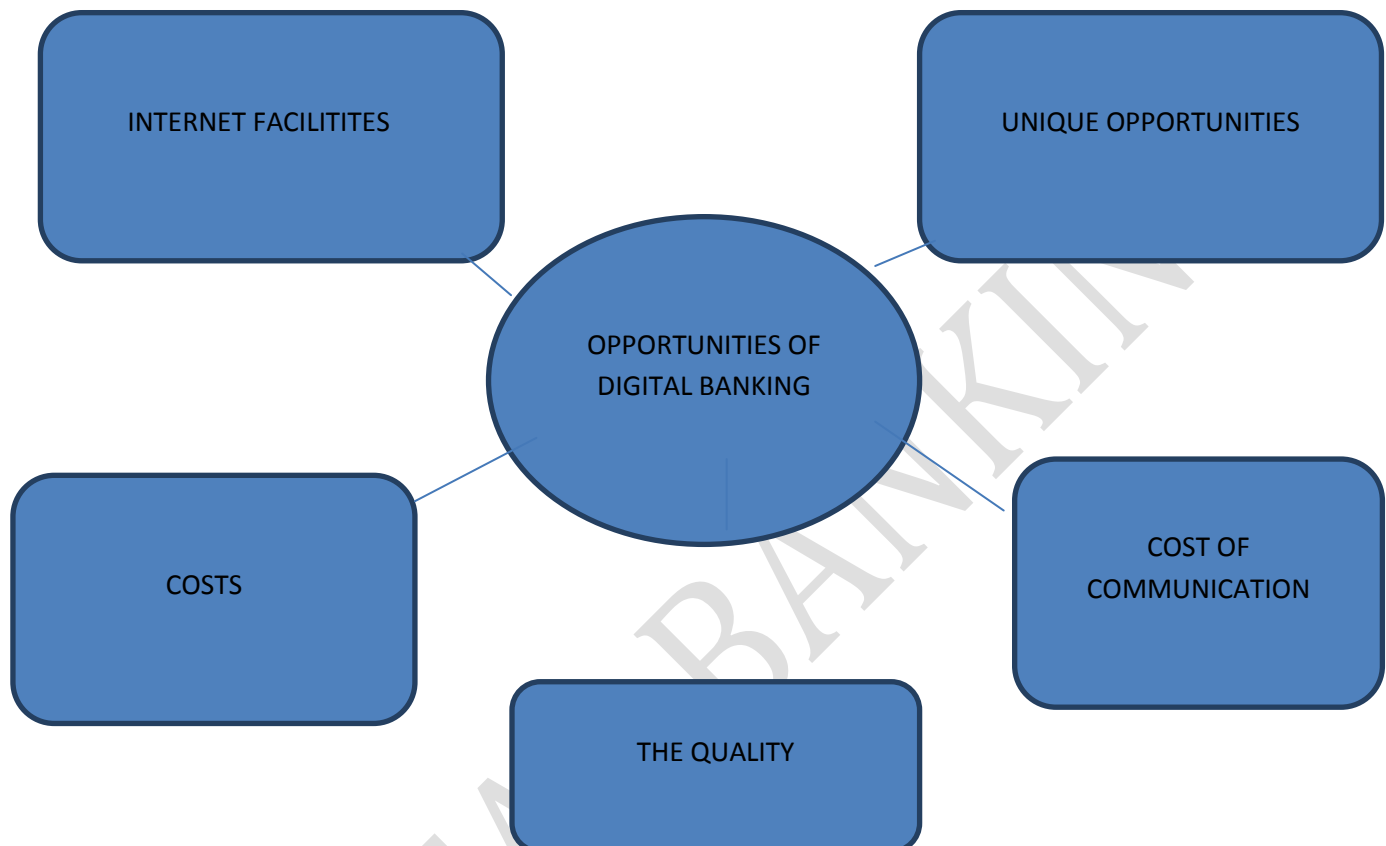
### **Transfers:**

Transfers between accounts with the same financial institution online can be done almost instantaneously. Not only is there no hold on the money being moved around, you can do it whenever you like & from wherever. You also save time on travelling to the local branch. Even transferring to other financial institutions is easier, & safer as you don't have to carry the money around with you. You can even now e-mail money to & from other people with INTERAC e-mail money transfers.

- A bank customer can perform some non-transactional tasks through online banking, including
  - viewing account balances
  - viewing recent transactions
  - downloading bank statements, for example in PDF format
  - Viewing images of paid cheques.
  - ordering cheque books
  - download periodic account statements
  - Downloading applications for M-banking, E-banking etc.

- Bank customers can transact banking tasks through online banking, including
  - Funds transfers between the customer's linked accounts
  - Paying third parties, including bill payments & telegraphic/wire transfers
  - Investment purchase or sale
  - Loan applications & transactions, such as repayments of enrollments
  - Register utility billers & make bill payments
- Financial institution administration
- Management of multiple users having varying levels of authority
- Transaction approval process

## OPPORTUNITIES



### **1 Internet facilities:**

It gives an ever-growing market both in terms of number of potential customers & geographical reach. Latest Technology & productive development has made access to Internet both cheaper & faster. More & more people across the globe are accessing the net either through PCs or other devices.

The purchasing power & need for quality service of this segment of consumers are considerable. Anybody accessing Internet is

a potential customer irrespective of his or her location thus, any business targeting final consumers cannot ignore the business potential of Internet.

### **2. Unique opportunities.**

Internet offers a unique opportunity to register business presence in a global market. Its effectiveness in disseminating information about one's business at a relatively cost effective manner is tremendous. Time sensitive information can be updated faster than any other media. A properly designed website can convey a more accurate & focused image of a product or service than any other media. Use of multimedia capabilities, i.e., sound, picture, movies etc., has made Internet as an ideal medium for information dissemination. However, help of other media is necessary to draw the potential customers to the web site.

### **3. Costs**

Cost is an important issue in an e-venture. It is generally accepted that the cost of overhead, servicing & distribution, etc. through Internet is less compared to the traditional way of doing business. Although the magnitude of difference varies depending on the type of business & the estimates made, but there is unanimity that Internet provides a substantial cost advantage & this, in fact, is one of the major driving forces for more number of

traditional businesses adapting to e-commerce & pure e-commerce firms to sprout.

### **4. The quality of service.**

It is a key feature of any e-commerce venture. The ability to sell one's product at anytime & anywhere to the satisfaction of customers is essential for e-business to succeed. Internet offers such opportunity, since the business presence is not restricted by time zone & geographical limitations. Replying to customers' queries through e-mail, setting up (Frequently Asked Questions) FAQ pages for anticipated queries, offering interactive help line, accepting customers' complaints online 24 hours a day & attending to the same, etc. are some of the features of business.

### **5. Cost of communication**

Cost of communication through WWW is the least compared to any other medium. Many a time one's presence in the web may bring in international enquiries, which the business might not have targeted. The business should have proper plans to address such opportunities.

## **TOOLS OF DIGITAL BANKING**

A number of services are being offered through electronic banking. It is quite difficult to measure the extent of such services, but an effort has been made by classifying these services into two categories. Firstly, to judge the impact of e-banking through different websites, services being offered by the banks have been categorized into informational & transactional services. Secondly, the extent of these services has been measured through ATM services offered by the banks.

### **A. ATM**

An (ATM) also known as an automated banking machine (ABM) that enables the clients of a financial institution to perform financial transactions without the need for a cashier, human clerk or bank teller. Most ATMs are connected to interbank networks, enabling people to withdraw & deposit money from machines not belonging to the bank where they have their accounts or in the countries where their accounts are held (enabling cash withdrawals in local currency). Although ATMs were originally developed as just cash dispensers, they have

evolved to include many other bank-related functions.

### **B. Smart card**

A smart card, chip card, or integrated circuit card (ICC) is any pocket-sized card with embedded integrated circuits. Smart cards can provide identification, authentication, data storage & application processing. Smart cards may provide strong security authentication for single sign-on (SSO) within large organization. Financial institutions worldwide are developing new methods to maintain & expand their services to meet the need of increasingly sophisticated & technically smart customer, as well as to meet the emerging payment needs of electronic commerce. Traditional credit cards are fast evolving into smart cards as consumers demand payment & financial services product that user friendly, convenient & reliable.

### **C. Debit card**

An electronic card issued by a bank which allows bank clients access to their account to withdraw cash or pay for goods & services. This type of card, as a form of payment, also

removes the need for checks as the debit card immediately transfers money from the client's account to the business account. The major benefits to this type of card are convenience & security. Debit cards are also considered to be a safer form of payment as a code is required to access the account funds, while checks can be easily stolen. Debit cards are also known as check cards. Debit cards look like credit cards or ATM cards, but operate like cash or a personal check.

#### **D. Mobile banking**

Mobile banking is a system that allows customers of a financial institution to conduct a number of financial transactions through a mobile device such as a mobile phone or personal digital assistant. The scope of offered services may include facilities to conduct bank & stock market transactions, to administer accounts & to access customized information. The following services can be availed through the Mobile banking application:

- Funds transfer (within & outside the bank).
- Immediate Payment Services

- Enquiry services (Balance enquiry/ Mini statement).
- Debit Account Services.
- Requests (Cheque book request/Generate OTP).
- Bill Pay (Utility bills, credit cards, Insurance premium),

#### **E. Credit card**

The word credit originated from the Latin word credo meaning Trust. A credit card is a payment card issued to users as a system of payment. It indicates an opinion on the future ability to the issuer to make timely payment of principal & interest of fixed income security. A credit card allows small short-term loans to be quickly made to a customer who need not calculate a balance remaining before every transaction.

Credit card enables a card holder to purchase goods, dine in a restaurant, stay in a hotel or travel without making immediate payment the bank makes payment to the establishment concerned. The payment is accommodated for the card holders for a specific period of time, say for forty-five

days. It enables the card holder to purchase goods & services without cash at select places. Credit cards can also offer reward points which may be redeemed for cash, products, or airline tickets.

### **F. Tele banking**

Telebanking is carrying out financial transactions using telephones. Telephone banking is a service provided by a bank or other financial institution that enables customers to perform financial transactions over the telephone, without the need to visit a bank branch. From the bank's point of view, telephone banking reduces the cost of handling transactions by reducing the need for customers to visit a bank branch for non-cash withdrawal & deposit transactions. Information / Services available through Phone Banking

#### **• Information about Products & Services**

- Information about Account Balance & Transactions.
- Information about status of Cheque Issued or Deposited.
- Information about ATM & Branch locations.

- Information / Issues on usage of - ATM, Internet Banking or Mobile Banking.
- Request for Cheque Book etc..... Other services provided by bank.
- Online share trading.
- Fund transfer.
- Online account opening.
- Bill payment.

### **REGULATORY & SUPERVISORY ISSUES**

The banks operating in real space are regulated & supervised by the RBI on regular basis. This regulation & supervision is required to be extended to Electronic banking as well. Thus, the RBI has issued the following guidelines in this regard:-

Only such banks which are licensed & supervised in India & have a physical presence in India will be permitted to offer Electronic banking products to residents of India. Thus, both banks & virtual banks incorporated outside the country & having no physical presence in India will not, for the present, be permitted to offer Electronic banking services to Indian residents. The products should be restricted to account holders only & should not be offered in other

jurisdictions. The services should only include local currency products.

The 'in-out' scenario where customers in cross border jurisdictions are offered banking services by Indian banks (or branches of foreign banks in India) & the 'out-in' scenario where Indian residents are offered banking services by banks operating in cross-border jurisdictions are generally not permitted & this approach will apply to Internet banking also. The existing exceptions for limited purposes under FEMA i.e. where resident Indians have been permitted to continue to maintain their accounts with overseas banks etc. will, however, be permitted.

Overseas branches of Indian banks will be permitted to offer Electronic banking services to their overseas customers subject to their satisfying, in addition to the host supervisor, the home supervisor.

Given the regulatory approach as above, banks are advised to follow the following instructions:-

All banks, who propose to offer transactional services on the Internet, should

obtain prior approval from RBI. Bank's application for such permission should indicate its business plan, analysis of cost & benefit, operational arrangements like technology adopted, business partners, third party service providers & systems & control procedures the bank proposes to adopt for managing risks. The bank should also submit a security policy covering recommendations made in this circular & a certificate from an independent auditor that the minimum requirements prescribed have been met. After the initial approval the banks will be obliged to inform RBI any material changes in the services / products offered by them. (Para 8.4.1, 8.4.2)

Banks will report to RBI every breach or failure of security systems & procedure & the latter, at its discretion, may decide to commission special audit / inspection of such banks. (Para 8.4.3)

The guidelines issued by RBI on 'Risks & Controls in Computers & Telecommunications' vide circular DBS.CO.ITC.BC. 10/ 31.09.001/ 97-98 dated 4th February 1998 will equally apply to Internet banking. The RBI as supervisor will cover the entire risks associated with

electronic banking as a part of its regular inspections of banks. (Para 8.4.4, 8.4.5)

With the increasing popularity of e-commerce, it has become necessary to set up 'Inter-bank Payment Gateways' for settlement of such transactions. The protocol for transactions between the customer, the bank & the portal & the framework for setting up of payment gateways as recommended by the Group should be adopted. (Para 8.4.7, 8.4.9.1 – 8.4.9.5)

Only institutions who are members of the cheque clearing system in the country will be permitted to participate in Inter-bank payment gateways for Internet payment. Each gateway must nominate a bank as the clearing bank to settle all transactions. Payments affected using credit cards, payments arising out of cross border 8.4.7)

Inter-bank payment gateways must have capabilities for both net & gross settlement. All settlement should be intra-day & as far as possible, in real time. (Para 8.4.7)

Connectivity between the gateway & the computer system of the member bank should be achieved using a leased line network (not

through Internet) with appropriate data encryption standard. All transactions must be authenticated. Once, the regulatory framework is in place, the transactions should be digitally certified by any licensed certifying agency. SSL / 128 bit encryption must be used as minimum level of security. Reserve Bank may get the security of the entire infrastructure both at the payment gateway's end & the participating institutions' end certified prior to making the facility available for customers use. (Para 8.4.7)

Bilateral contracts between the payee & payee's bank, the participating banks & service provider & the banks themselves will form the legal basis for such transactions. The rights & obligations of each party must be clearly defined & should be valid in a court of law. (Para 8.4.7)

Banks must make mandatory disclosures of risks, responsibilities & liabilities of the customers in doing business through Internet through a disclosure template. The banks should also provide their latest published financial results over the net. (Para 8.4.8)

Hyperlinks from banks' websites often raise the portals with which they have a payment arrangement or sites of their subsidiaries or principals. Hyperlinks to banks' websites from other portals are normally meant for passing on information relating to e-commerce transactions & all intra-bank payments (i.e., transactions involving only one bank) should be excluded for settlement through an inter-bank payment gateway. (Para

Purchases made by banks' customers in the portal. Banks must follow the minimum recommended security precautions while dealing with request received from other websites, relating to customers' purchases. (Para 8.4.9)

Thus, the guidelines issued by the RBI have taken care of the challenges to be faced by the Electronic banking. The Reserve Bank of India has directed that all banks offering Electronic banking services, with immediate effect, should adopt the Group's recommendations. Even though the recommendations have been made in the context of Internet banking, these are applicable, in general, to all forms of electronic banking & banks offering any

form of electronic banking should adopt the same to the extent relevant. Further, all banks offering Electronic banking are advised to make a review of their systems in the light of these guidelines & report to Reserve Bank the types of services offered, extent of their compliance with the recommendations, deviations & their proposal indicating a time frame for compliance. The first such report must reach the RBI within one month from 14-06-2001. The banks not offering any kind of I-banking may submit a 'nil' report. The banks who are already offering any kind of transactional service are advised to report, in addition to those mentioned in paragraph above, their business models with projections of cost / benefits etc. & seek RBI's post-facto approval.

### **LEGAL ISSUES - IT ACT, 2000**

The Internet banking cannot operate properly unless it is in conformity with the Information Technology Act, 2000 (hereinafter referred to as Act). A holistic approach should be adopted, the purpose of which should be to bring uniformity & harmony between the provisions of the Act on the one hand & the guidelines issued by

the RBI on the other. It must be appreciated that in case of conflict between the provisions of the Act & the guidelines, the former would prevail. The following provisions of the Act have a direct bearing on the functioning of Internet banking in India:

The authentication of electronic records for the purposes of Internet banking should be in accordance with the provisions of the Act.

The electronic records duly maintained for the purposes of Internet banking would be recognized as legally valid & admissible.

The digital signature affixed in a proper manner would satisfy the requirement of signing of a document for the purposes of Internet banking. Any kind of paper work, which is required to be filed in the government offices or its agencies, would be deemed to be duly filed if it is filed in the prescribed electronic form. Thus the paper formalities can be effectively substituted with electronic filings for Internet banking purposes. The banking business requires certain documents or records to be retained for a fixed period. In Internet banking such documents or records can be retained in an

electronic form issue of reputation risk. Such links should not mislead the customers into believing that banks sponsor any particular product or any business unrelated to banking. The rules, regulations, order, bye-law, notification or any other matter pertaining to Internet banking can be published in the Official Gazette or Electronic Gazette, as the case may be.

The Internet banking presupposes the existence of attribution & certainty. If any electronic record is sent by the originator himself, by his agent, or by an information system programmed by or on behalf of the originator to operate automatically, then the electronic shall be attributed to the originator. The requirement of acknowledgement of documents sent for the purposes of Internet banking is adequately safeguarded by the Act. The Internet banking may require to determine the time & place of dispatch & receipt of electronic records. This problem can be easily solved by applying the provisions of the Act.

The Internet banking would require the secured electronic records for its proper working. Where any security procedure has been applied to an electronic record at a

specific point of time, then such record shall be deemed to be a secure electronic record from such point of time to the time of verification. A digital signature meeting the specified requirements would be deemed to be a secured digital signature for carrying out Internet banking transactions. The Central Government has the power to prescribe the security procedures to give effect to the provisions of the Act, having regard to the commercial circumstances prevailing at the time when the procedure was used. Thus, the Central Government can specify safety measures & security procedures for Internet banking under the provisions of the Act.

The Controller of Certifying Authorities (CCA) can issue licenses to the Certification Authority under the IT Act, 2000. The Certifying Authority is assisted by the Registration Authority, which is created at the level of the organizations subscribing to the services of the Certifying Authority. The Reserve Bank would function as a Registration Authority (RA) for the proper functioning of Internet banking.

## CONCLUSIONS

Digital banking is a generic term for delivery of banking services & products through electronic channels, such as the telephone, the internet, the cell phone, etc. The concept & scope of E-banking is still evolving. It facilitates an effective payment & accounting system thereby enhancing the speed of delivery of banking services considerably. While E-banking has improved efficiency & convenience, it has also posed several challenges to the regulators & supervisors. Several initiatives taken by the government of India, as well as the Reserve Bank of India (RBI), have facilitated the development of online banking in India. The government of India enacted the IT Act, 2000, which provides legal recognition to electronic transactions & other means of electronic commerce.

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