

ISSN: 2582-6433



# INTERNATIONAL JOURNAL FOR LEGAL RESEARCH AND ANALYSIS

Open Access, Refereed Journal Multi Disciplinary  
Peer Reviewed 6th Edition

VOLUME 2 ISSUE 7

[www.ijlra.com](http://www.ijlra.com)

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# **THREATS TO THE RIGHTS OF CONSUMERS IN E-BANKING IN INDIA: AN OVERVIEW**

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## **Abstract:**

Internet banking has attracted the attention of banks, securities trading firms, brokerage houses, insurance companies, regulators and lawmakers in developing nations since the late 1990s. With the rapid and significant growth in electronic commerce, it is obvious that electronic (Internet) banking and payments are likely to advance. Researches show that impact of Internet banking on cost savings, revenue growth and increased customer satisfaction on Industry is tremendous and can be a potential tool for building a sound strategy. However, it has raised many public policy issues before the banking regulators and government agencies. Interestingly, reliable and systematic information on the scope of Internet banking in Indian context is still not sufficient, particularly what it means to the consumers and the bankers.

The need and importance of the consumer protection is expanding at a rate of knots especially in the Indian banking sector. We have encountered many incidents in the banking sector where the consumers are misled due to the failure of bank's operational capacities leading to the financial insecurity amongst the innocent customers. The recent example is the Punjab and Maharashtra Co-operative bank issue, wherein, the Reserve Bank of India ("RBI") under Section 35(A) of Banking Regulation Act, 1949 imposed the regulatory restrictions and withdrawal restrictions upon the said bank due to its irregularities disclosed to the RBI, which in turn has affected the faultless customers.

The Banking industry is one of the oldest in the world. The Indian Banking Industry has not remained totally passive spectator of Information Technology revolution that has taken place around the world. Banking industry in India has undergone radical changes under the umbrella term „web

Revolution". In the modern computer world, all the activities of the banking transactions are made through computers and electronic medium. The banks have put themselves in the World Wide Web to take advantage of the internet's power and reach, to cope with the accelerating pace of change of business environment. Electronic Banking is popularly known as „PC banking“, „online banking“, „Internet banking“, „Telephone-banking“ or „mobile banking“. E-banking may be understood as term that covers all these ways of banking business electronically.

**Keywords:** *E-Commerce, E-Banking, Threats in E-Banking, Opportunities, Threats, Safe banking, Risk Factor, ATMs, ECS, National Electronic Funds Transfer (NEFT), RTGS, CAGR*

## Introduction:

A healthy banking system is very much needed for any economy striving to achieve good growth in an increasingly global business environment. The banking sector has undergone an intense transformation since the early 1990s. The modified operative atmosphere for the industry, underpinned by banking, liberation, and advances in data technology, has resulted in intense competitive pressure. Banks have more experienced this challenge by diversifying through change data Technology and modernization of the existing system. E-banking could be a revolution of the banking sector by data technology. Electronic Banking or E-banking refers to the utilization of technology that permits customers to access banking services electronically whether or not it's to pay bills, transfer funds, read accounts, or to get data and devices.

Electronic banking offers a lot of benefits to individual customers, businesses, and banks. However, one should not ignore the risks associated with virtual banking either. The rapidly increased use of the World Wide Web, Internet, Intranet and Extranets, e-business, e-commerce and mobile commerce has changed the manner in which business is conducted. The advent of digital era accompanied with technological innovations and globalization is constantly propelling the businesses organization to redefine their business operations in terms of value chain reengineering and restructuring business models. Likely, the economic sector is metamorphosing under the impact of competitive, regulatory and technological forces.<sup>1</sup>

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<sup>1</sup> Efraim Turban, Dorothy Leinder, Ephraim Mclean and James Wetherbe, *Information Technology for*

The „e-Revolution“ has placed virtually the entire trading universe in cyberspace and this new trading universe in the lap of cyberspace is known as „Digital Economy“. The digital economy Digital economy refers to an economy that is based on digital technologies including digital communication networks (the Internet, Intranet and Private Value Added Networks or VANs), Computers, Software and other related Information Technologies. The term Digital Technology also refers to the convergence of computing and communication technologies on the Internet and other Networks, and the resulting flow of information and technology that is stimulating e-commerce and vast organizational change.<sup>2</sup>

## Meaning Of E-Banking

The term electronic banking means an electronic fund transfer by simple using the electronic means from one account to another account rather than by cheque or cash.<sup>3</sup> As the name electronic banking also provides some advantages over the traditional banking methods. E- banking can also be defined as delivery of banking services to a customer at his office or home using electronic technology. The term electronic banking is a general term. It includes internet banking, telephone banking and mobile banking. The concept of e-banking is evolving day by day. Electronic banking services allow a bank customer and stakeholders to interact and transact with the bank seamlessly through a variety of channels such as internet, wireless devices, ATM, online banking etc.

## History of E-Banking:

The concept of e-banking is evolved with the development of the World Wide Web. Some person while working on the banking databases came up with the idea of online banking transaction in 1980s. Online shopping, a credit card also promotes the concept of online banking.

In India e-banking is a new concept. The traditional banking system in India runs through the

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*Management: Transforming Organizations in the Digital Economy*, John Wiley & Sons, Inc., Asia, NJ, p.iii.

<sup>2</sup> E. Brynolfson, et.al., “Consumer Surplus in the Digital Economy: Estimating the Value of Increased Product Variety at Online Book-sellers”, *Management Science*, 49 (11), 2003, p.15.

<sup>3</sup> <https://www.legalserviceindia.com/legal/article-3322-e-banking-frauds-and-indian-legal-prospective.html> Last

seen 2 May 2023

branch banking system. In the year of 1990 the non-branch banking system started.<sup>4</sup>The new concept of e-banking system gain popularity over the old traditional manual branch banking system. The credit of launching the new technology in banking system goes to the private bank like ICICI bank. Citibank and HDFC bank who introduces the internet banking in 1999.

## **Role of E-Commerce in Indian Banking Sector:**

Electronic commerce is the use of a telecommunications network to share business information, maintain business contacts, and make commercial transactions. Massive advancements in information technology have transformed the globe into a global village, resulting in unparalleled upheaval in the banking business. Banks presently operate in a highly globalised, liberalised, privatised, and competitive environment. Banks must employ technology to thrive in this climate. IT has ushered in a new commercial age. In terms of enhancing services, it is becoming more significant in the banking industry. Due to broad improvements in information technology, the Indian banking industry has seen remarkable growth. Banking has revolutionised the banking business as well as the services provided by banks to their consumers.

'Anywhere banking' became known as a way to provide distinctive and competitive services. Apart from traditional branch banking, click-and-order methods such as online banking, ATMs, Tele-banking, and mobile banking are becoming popular. Customers may access their accounts, obtain account statements, transfer cash, and acquire draughts with only a few keystrokes.

Customers are increasingly required to visit branch locations due to the large number of people of ATMs and plastic cards. Smart Cards, which have an integrated microprocessor chip, have ushered in a revolution. Another invention that has had an influence on the banking industry is electronic data exchange (EDI). Transaction costs have decreased, productivity has increased dramatically, and new financial products and services have been introduced to the market.

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<sup>4</sup> <https://byjus.com/bank-exam/history-banking-india/> last seen 2 May 2023

## Benefits Of E-Banking:

Computers are capable of storing, analyzing, aggregating, finding, and displaying data according to user needs with a great deal of speed and precision, therefore E-Banking helps us overcome the shortcomings of manual systems. With the advancement of E-Banking, a slew of benefits flow to numerous parties.

### To the Banks

- E-Banking Service helps in increasing the profits
- E-banking gives you a leg up on the competition. a border with fewer connections to the banks
- E-Banking carries when it comes to business, less is more when it comes to paper money and plastic money
- Websites that provide e-banking services might be useful in revenue earner through its promotional activities.
- Customers may use the e-banking service from anywhere, reducing the need to spend additional money on infrastructure.
- Websites that provide financial convergence for customers will result in a more engaged banking consumer who will use the banking websites more often.<sup>5</sup>

### To the Customers

- Access to and use of banking services is less expensive.
- Increased convenience and time savings – transactions may be completed 24 hours a day, without the need for a physical visit to the bank.
- Corporations will have quicker access to information since they will be able to check on several accounts with a single click of a button.

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<sup>5</sup> Ayo, Charles K. (2006). "The Prospects of e-Commerce Implementation in Nigeria, Journal of Internet Banking and Commerce", Vol. 11, No.3, pp. 68-75

- E-banking services for better cash management shorten the cash cycle and improve the efficiency of company activities since Estonian banks' websites offer a wide range of cash management instruments.
- Reduced fees- This refers to the fees associated with obtaining and utilising different financial goods and services.
- Convenience- All banking transactions may be completed from the convenience of one's own home or workplace, or from any location the consumer desires.
- Speed - Because the medium responds quickly, clients can literally wait until the last minute to complete a financial transfer.
- Funds management- Customers may retrieve their account history and do "what if" research on their own PC before completing any online transaction. This will result in more efficient money management.<sup>6</sup>

## Traders and Merchants:

- It guarantees prompt payment and settlement for the dealers' varied transactions.
- It offers a wide range of services to businesspeople that are on par with international standards and have minimal transaction costs.
- Cost and risk problems involved in handling cash which are very high in business transactions are avoided.<sup>7</sup>

Today, E-Commerce is being seen as the single largest business window across the world. It has introduced a paradigm shift in the dynamics of business and banking.<sup>8</sup> The Indian Banking Industry has not remained totally passive spectator of Information Technology revolution that has taken place around the world.<sup>9</sup> Technology in the Banking has been used in four major ways<sup>12</sup>:

1. To handle a greatly expanded customer base
2. To reduce substantially the real cost of handling payments

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<sup>6</sup> A. K. Sohani, (2009), "Technology and Banking Sector", ICFAI University Press, pp. 1-39

<sup>7</sup> Brahm Canzer, (2009) "E-Business and Commerce Strategic Thinking and Practice", Houghton Mifflin, pp. 114-312.

<sup>8</sup> S. Ganesh, Electronic Commerce: Applications in Banking", in S.B. Verma, S.K. Gupta and M.K. Sharma (edited), p. 27.

<sup>9</sup> R. P. Nainta, *Banking System, Frauds and Legal Control*, Deep & Deep Publications Pvt. Ltd., New Delhi, 2005, p. 154.

3. To liberate the banks from the traditional constraints of time and place
4. To introduce new products and services

## Threats of E-Banking In India

After the effect of demonetization, digital money has been the weak point among the citizens of India. Digital cash and online transactions in the current market scenario have a great impact on electronic banking and digital banking. Electronic banking (electronic banking) or online banking means that any user with a personal computer and a browser can connect to their bank through the bank's website to perform any of the functions of virtual banking. All the services that the bank has authorized on the Internet are shown in the menu. Any service can be selected and other interactions are dictated by the nature of the service.<sup>10</sup> Now, the demand for one-day financial services is rapidly transmuting and the deportation of clients with respect to these services is bound to transmute rapidly.

The history of computer crime is as old as the computer itself. Any new technology or development can be used for both constructive as well as destructive purposes. When most of the people are using computers for constructive, ethical legal purpose, there are some who are using these for destructive, unethical or illegal purpose. If a fraud is committed with the help of a computer, it can be called as "Computer Crime". Computer crimes are classified into three broad categories:<sup>11</sup> (a) Data Related Crimes; (b) Software Related Crimes; and (c) Physical Crimes.

The Internet environment provides an extremely easy landscape for conducting illegal activities on computer. These are known as cybercrimes, meaning crimes executed on the Internet.

Cybercrime has recently become a catchy term for a group of security issues in cyberspace. Any activity, which basically offends human sensibilities, can be included in the ambit of cybercrimes.<sup>12</sup> Hundreds of different methods and „tricks“ are used by innovative criminals to get money from innocent people, to buy without paying, to sell without delivering, to abuse people and much more.

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<sup>10</sup> <https://thinkindiaquarterly.org/index.php/think-india/article/view/8932> Last visited 3 May 23

<sup>11</sup> R.P.Nainta, pp. 59-60.

<sup>12</sup> Definition by Advocate Pavan Duggal, Retrieved from <<http://www.pavanduggal.net/law.php>>, visited on 1 February, 2012.

**a) Security Issues:**

In E-Banking industry the financial crimes with the assistance of Internet are increasing day by day. Security is one of the most important issues required to be addressed before implementing E-Banking. There is a considerable threat of unauthorized access/loss or damage of data by hackers, loss and damage of Data by virus and unauthorized access within the network.<sup>22</sup> The risk of loss of security is present when an organization makes use of Internet for online payment. Confidentiality, Integrity, Authenticity, Reputability and Privacy are major concerns for the protection of rights of consumers.<sup>13</sup>

**b) Phishing:**

Phishing is an Internet fraud, through which innocent persons are enticed to divulge their personal information like User Identity and Passwords, which are later on used by spammers in an unauthorized way. The most important method of Phishing is sending e-mails claiming to be from consumers' Bank or other financial institutions which are dealing, that already has consumer's personal information, and consumer will be asked to confirm the details by clicking a personal link (URL) provided in this fake e-mail. This URL takes consumer to a fake website which will be similar to the genuine website, and the information provided by consumer in the forms provided in the fake website, will be gathered and used for committing fraud in their accounts/ credit card or withdraw funds unauthorized from their accounts.<sup>14</sup>

**c) Pharming:**

Pharming is another Internet fraud, whereby as many users as possible are redirected before they reach the legitimate online banking websites they intend to visit and are lead to malicious ones. The bogus sites, to which victims are redirected without their knowledge or consent, will likely look the same as a genuine site. But when users enter their login name and password, the information is captured by criminals.<sup>15</sup>

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<sup>13</sup> S.Ganesh, p. 31.

<sup>14</sup> S.C.Gupta, "Internet Banking-Changing Vistas of Delivery Chanel", in S.B. Verma, S.K. Gupta and M.K. Sharma (edited), p. 106.

<sup>15</sup> S.C. Gupta, p. 106.

#### d) **Hacking**

Hacker is the term often used to describe an outside person who penetrates a computer system. There are two types of hackers. White-Hat Hackers perform ethical hacking, doing test on their clients' systems so find the weak points, so that they can be fixed. Black-Hat Hackers also referred to as crackers, are the criminals. A Cracker is a malicious hacker, who may represent a serious problem for a corporation.<sup>16</sup>

#### e) **Identity Theft**

A growing cybercrime problem is Identity Theft, in which a criminal (Identity thief) poses as someone else. The thief steals social security numbers and credit card numbers, usually obtained from Internet, to commit fraud (e.g. to buy products or consume services) that the victim may be required to pay for. Any digital identity theft definition includes a malicious actor that illegally acquires personal information (date of birth, social security number, credit card details etc.) and uses it for identity fraud (cloning credit cards, applying for loans, extorting the victim etc.)<sup>17</sup>

#### f) **Salami Slicing**

A program designed to siphon off small amount of money from a number of larger transactions, so the quantity taken is not readily apparent.

#### g) **Trap Door**

A computer trapdoor, also known as a back door, provides a secret -- or at least undocumented -- method of gaining access to an application, operating system or online service. Programmers write trapdoors into programs for a variety of reasons. Left in place, trapdoors can facilitate a range of activities from benign troubleshooting to illegal access.<sup>18</sup>

#### h) **Spoofing**

Fake e-mail address or web page to trick users to provide information or send money. Its main purpose is to confuse the consumers in similar or fake website.

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<sup>16</sup> Efraim Turban, et.al, *Electronic Commerce*, Prentice Hall, Upper Saddle River, NJ, 2006, p. 118.

<sup>17</sup> <https://www.bitdefender.com/cyberpedia/what-is-digital-identity-theft/> last visited on 3 May 23

<sup>18</sup> <https://www.techwalla.com/articles/what-is-a-computer-trapdoor> last visited on 3 May 23

### i) Password Cracker

Password cracking is the process of using an application program to identify an unknown or forgotten password to a computer or network resource. It can also be used to help a threat actor obtain unauthorized access to resources.<sup>19</sup>

### j) Cookies

Cookies are small text files placed on a user's computer when a website is accessed. They contain information sent by the website server to the user's browser. If desired, a web user can sometimes view cookies in the source code of the header of a web page. However, generally, the information collected is not displayed to the user, but is recorded, tracked, and stored by the user's computer and browser. If a user returns to the website, the user's web browser will send the previously stored information to the website. In this way, the cookies can tell the website that this is the same computer that was here some time ago, thus tracking the movements of users of particular computers.<sup>20</sup>

## Conclusion:

E-Banking has become part and parcel of our modern life.<sup>21</sup> However, the rights of consumers are not safe. In order to pave the way for the development of e-commerce and internationally acceptable level of legal uniformity and compatibility of rules and practices, the United Nations Commission on International Trade Law (UNCITRAL) established by the United Nations General Assembly in 1996, adopted the Model Law of Electronic Commerce in 1996.

Time changes, and with time we are. The old order has changed yielding place to new, and we must have new need for the new hour. To keep pace with the countries of the West, born and bred in traditions of scientific and industrial progress, the underdeveloped countries must be themselves equipped with all the facilities enjoyed by the West under the concept of „ONE WORLD“. While it is true that he, who runs, may find the principle of survival of the fittest illustrated right and left,

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<sup>19</sup> <https://www.techtarget.com/searchsecurity/definition/password-cracker> last visited on 3 May 23

<sup>20</sup> Lee Fen Yem, *Cyber Space Law*, Oxford University Press, New Delhi, 2007, p. 128.

<sup>21</sup> Retrieved from <<https://www.unionbankonline.co.in/Disclaimer/TermsOfUse.pdf>>, visited on 1 February, 2012.

it is equally true that he who runs alone may find himself in the wilderness. A single weak link in the body international, and off goes the chain. India, in turn, must fit in within the new pattern. This is particularly true of the monetary mechanism, where a considerable Lee-way has to be made up.<sup>22</sup>

In today's modern world banking frauds have become a common phenomenon. The general public deposit their money in banks mainly for security purposes and not merely for the minimal rate of interest provided by the banks, but whenever frauds occur at banks, the trust of the general public is broken. Nowadays, hardly a day passes when incidents of banks frauds and forgeries are not reported in newspaper and such frauds may range from theft, robbery, frauds relating to debit card and credit card and frauds committed through internet especially in instances of internet banking.



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<sup>22</sup> M.L. Tannan, *Banking Law and Practice in India*, India Law House, New Delhi, 1989, p. 2.