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# **IMPACT OF E-COMMERCE ON BANKING SYSTEM**

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## **ABSTRACT**

In the past ten years, people's purchasing and selling practices have been transformed by the internet. E-commerce is changing the buying experiences of Indian customers. Increased economic expansion is brought about by the expansion of electronic data exchange to include, among other things, producers, retailers' traders, stock market operations, and travel bookings. The practice of conducting business online via telephones, fax machines, and computers is referred to as "E-Commerce." In 1972, IBM was the first company to use the term. The initial transactions were carried out by the United States and the European Union. The beginning of electronic commerce in our nation occurred when the internet market was established in 1995. E-banking has filled in prevalence in light of the fact that to its simple value-based benefits like speed, proficiency, and openness are additionally accessible. E-commerce's ability to bring people from all over the world together in a short amount of time is its most significant advantage. Give people chances to experience and gain access to things, services, information, and other people they might not otherwise have. Every nation's economy relies on banks, which facilitate quick transactions that were previously impossible prior to the advent of e-commerce. This study demonstrates the significance of the Indian banking sector to e-commerce.

## **KEYWORDS**

e-commerce, Banking, Information Technology, Law

## **INTRODUCTION**

Electronic trade is the utilization of a broadcast communications organization to share business data, keep up with business contacts, and make business exchanges. Enormous headways in data innovation have changed the globe into a worldwide town, bringing about unmatched disturbance in the financial business. Currently, banks operate in an environment that is highly globalized, liberalized, privatized, and competitive. To survive in this environment, banks need to use technology. A new era of business has begun thanks to IT. In the banking sector, it is becoming increasingly important to improve services. Because of expansive upgrades in data innovation, the Indian financial industry has seen noteworthy development. The banking industry and the services banks provide to their customers have been transformed by banking. As a means of providing services that were distinctive and competitive, "anywhere banking" came to be known. Click-and-order methods like online banking, ATMs, Tele-banking, and mobile banking are gaining popularity in addition to traditional branch banking. With just a few keystrokes, customers can access their accounts, get statements, transfer money, and get drafts. Clients are progressively expected to visit branch areas because of the huge number of individuals of ATMs and plastic cards. The introduction of smart cards with integrated microprocessor chips has heralded a revolution. Electronic data exchange (EDI) is another invention that has had an impact on the banking industry. New financial products and services have entered the market, productivity has skyrocketed, and transaction costs have decreased.<sup>1</sup>

## **HISTORY OF E-COMMERCE**

With new technology, inventions, and hundreds of businesses taking advantage of the internet market every year, ecommerce has been around for 40 years and is still growing today. Teleshopping and electronic data interchange paved the way for today's ecommerce store in the 1970s. The development of e-commerce and the internet are inextricably linked. When the internet was first made available to the general public in 1991, it was possible to shop online. Since then, thousands of businesses have followed Amazon.com's example, which was one of the first U.S. e-commerce sites to start selling products online. E-commerce has come a long way since its inception in terms of customer

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<sup>1</sup> Albert H., Judd, Rivers, (2006) "Creating a winning E-Business", Wagner Course Technology Thomson Learning, pp. 37-255

experience, security, and convenience. E-Commerce milestones and some of the major players will be discussed in this article.<sup>2</sup>

## **DEFINITION OF E-COMMERCE**

E-commerce, often referred to as electronic commerce or EC, is the purchasing and reselling of products and services, as well as the transmission of payments and data, through an electronic network, typically the internet. Business-to-business, business-to-consumer, consumer-to-consumer, and consumer-to-business transactions are all possible.<sup>3</sup>

The terms e-commerce and e-business are sometimes used interchangeably. Occasionally, the term e-tail is used to refer to online buying transactional operations.<sup>4</sup>

## **E-COMMERCE IN BANKING**

In 1996, ICICI Bank became the first bank to offer internet banking to its customers to promote its use. Web based banking was just sent off in 1999, on account of diminishing web costs and developing consciousness of electronic media. HDFC, Citibank, IndusInd, and the now-defunct Times Bank were among the other financial institutions to follow suit.

With impact from October 17, 2000, the Public authority of India endorsed the IT Act, 2000, which gave lawful authenticity to electronic exchanges and different types of electronic business. To ensure that e-banking-related issues do not jeopardize financial stability, the Reserve Bank continuously monitors and revises the legal and other requirements of e-banking.<sup>5</sup>

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<sup>2</sup> Alawneh A., and Hattab E, (2007) "E-Business Value Creation: An Exploratory Study, Proceedings of the Seventh International Conference on Electronic Business", Taipei, pp. 181-188

<sup>3</sup> Alawneh A., and Hattab E (2009). "International Arab Journal of e-Technology", Vol. 1, No. 2, pp. 1-8

<sup>4</sup> Amit Basu and Steve Muylle (2007), "How to Plan E-Business Initiatives in Established Companies", Vol. 49, No. 1, pp. 11-22

<sup>5</sup> Aranda-Mena, G. and Stewart, P. (2005), "Barriers to E-Business Adoption in construction international literature review", pp. 33-49

## **FORMS OF E-BANKING**

1. Internet banking
2. Electronic funds transfer system
3. Investment through internet banking
4. Automated teller machines
5. Debit cards
6. Credit cards
7. Bill payment service
8. Applying for/claiming insurance
9. Smart cards
10. Mobile banking

## **BENEFITS OF E-BANKING**

E-Banking helps us overcome the shortcomings of manual systems because computers are capable of storing, analyzing, aggregating, finding, and displaying data according to user needs with a great deal of speed and precision. Numerous parties gain a slew of advantages as a result of the development of electronic banking.

### **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>6</sup>

### **To the Customer**

- 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.
- 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>7</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.

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<sup>6</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

<sup>7</sup> A. K. Sohani, (2009), "Technology and Banking Sector", ICAI University Press, pp. 1-39

- Cost and risk problems involved in handling cash which are very high in business transactions are avoided.<sup>8</sup>

## **FRAUDS IN THE INDIAN BANKING SECTOR**

With the progression of time, the quantity of fakes is committed in a bank are expanding at a disturbing rate in India. A person is said to have committed fraud when they attempt to dishonestly benefit themselves over another. In other words, fraud is the act or omission of causing wrongful gain or loss through the suppression of relevant facts or in any other way. There have been two major banking frauds in India recently that have shaken the nation:

In the Vijay Mallya and Nirav Modi<sup>9</sup> cases in India, section 17 of the Indian Contract Act defines fraud. In Derry v. Peak, it was observed that when a false statement is made knowingly, without believing in the truth, or carelessly, it can be considered fraud, and when a false statement is made by someone who knows it is false, it is called false misrepresentation.

In a similar vein, the Supreme Court ruled in Shri Krishna v. Kurukshetra University, Kurukshetra<sup>10</sup> that for a false statement to constitute fraud, the person making the statement must be aware of its falsity, and the party against whom the fraud is committed must not be aware of the correct circumstances.

The most significant aspects of fraud are: In relation to a specific fact, there must be representation and affirmation; the individual offers a bogus expression should know that the explanation that the person is making is misleading and it should convince the other party to commit or preclude a demonstration as per the certification being referred to.

Thus, transactions in which one party wrongfully gains and the other wrongfully loses through dishonesty or fraud constitute banking fraud. In the past, banking frauds included misappropriation, fraud, manipulation, and other similar activities. However, as technology has advanced, the number of institutions involved in the banking industry has grown.

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<sup>8</sup> Brahm Canzer, (2009) "E-Business and Commerce Strategic Thinking and Practice", Houghton Mifflin, pp. 114-312

<sup>9</sup> Ami Merchandising Pvt.Ltd vs State Of Maharashtra And Others on 3 April, 2014

<sup>10</sup> 1976 AIR 376, 1976 SCR (2) 122

Then again, as to fabrication, the Indian Punitive Code characterizes falsification under segment 463. One can be said to commit phony if he/she with the intension to cause harm or injury makes any bogus report. The intent of the person committing the act must be dishonest or fraudulent in order for the act to be considered forgery.

In the case of CBI v. Vikaram Anantrai Doshi and others<sup>11</sup>, it was observed that banking frauds cannot be categorized as an individual or personal wrong; rather, they are a social wrong that has an effect on society. If anyone, including bank employees, commits the criminal offense of defrauding someone while obtaining a loan, they are liable for any criminal proceedings that are initiated against them, and such proceedings are unquestionably maintainable under the law.

## **LEGISLATIVE FRAMEWORK IN INDIA**

Legislative Framework In India, e-banking is relatively new, but the majority of banks offer services like account access and information. New plans and policies for e-banking are being developed by banks, governments, and the RBI as a result of technological advancement. Information technology is changing quickly these days, and its scope has grown over time. India has also implemented banking regulations and information technology.

Banks cheats are an abhorrent in the present current age that happens the financial advancement of any country. Therefore, a robust legal system is required to stop such frauds in the banking industry. In India, there is no particular regulation that bargains solely on financial cheats, yet there are many general regulations that in some way for sure arrangement with banking fakes. The provisions of some significant general laws pertaining to banking fraud are the subject of this chapter's analysis.

- The 1860 Indian Penal Code:

The Indian Correctional Code doesn't characterize the term 'extortion' solely and nor does it orders banking misrepresentation as a particular offense. However, banking fraud cases draw attention to specific provisions of the act.

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<sup>11</sup> S.L.P. (Cri.) No. 6461 of 2011

According to the Indian Penal Code, counterfeiting currency notes or coins is a crime that can be considered an example of fraud. Further, Part XVIII of the Code can be said to contain arrangements connecting with banking cheats wherein segment 378 and area 379 states about burglary and its discipline individually.

- 1872's Indian Contract Act:
- Contracts are defined in Section 10 of the Indian Contract Act. A banker and the customer have a contractual relationship, as previously mentioned. As a result, it can be said that the Act will apply to some degree to the investigation of banking frauds in India.

The Act's Section 16 addresses underage drinking, which can be considered a lesser form of fraud. The concept of fraud is elaborately covered in Section 17 of the Act, and misrepresentation is covered in Section 18. The court looked into the idea of constructive fraud in *Oriental Bank Corporation v. John Flentming*. In addition, section 19 says that agreements can't be canceled without the parties' free consent.

- Banking Guideline Act, 1949

The Financial Guideline Act, 1949 doesn't manage banking fakes straightforwardly and accordingly one barely contemplates applying the arrangement of this Demonstration in managing banking cheats. Anyway, the arrangement under this Act to some degree helps one in understanding the tasks of the financial business which thusly could help in figuring out the explanations for event of banking cheats.

- The Data Innovation Act, 2000

The IT Act 2000, alongside revising the Indian Correctional Code to bring inside its extension customary offenses committed electronically, has likewise made:

a new breed of technology crimes that can be avoided by maintaining a safe electronic environment for e-banking and preventing banking frauds and forgeries. Additionally, a portion of the RBI Act of 1934 was modified by Section 94 of the Act. Some online banking frauds

include digital forgery, unauthorized access to a computer network, data alteration, skimming, and online identity theft and impersonation.

Job Of Hold Bank Of India In E-Banking:

The Save Bank of India assumes a major part in giving acknowledgment of e-banking in India. The transaction, which includes Real Time Gross Settlement (RTGS), National Electronic Fund Transfer (NEFT), and other forms of fund transfer, aims to make electronic fund transfers easier and guarantee that records and documents are admissible in court. Save Bank of India practices the electronic instalment framework Electronic Clearing Administration (ECS) and Electronic Asset Transfer (EFT) which are presented in 1995 and RTGS framework in 2004, NEFT framework in 2005 and really look at exchange framework in 2008.

In addition, the Reserve Bank of India issued guidelines regarding card present transaction risk mitigation and security concerns. By requiring banks to implement additional authentication or validation for all-in-one recurring transactions based on information that is not available on the credit, debit, or prepaid cards, the RBI has taken steps to protect card not present transactions in this circular.

RBI likewise guided the banks and different partners to start quick activity for achieving the accompanying errand inside sensible time. It likewise gives guideline to the business banks of India connecting with the execution of extortion risk the executives rehearses and getting the innovation framework. The Banking Laws Amendment Act of 2012 gave the RBI the authority to request any information and conduct business inspections of any bank associate company.

In addition, it laid the groundwork for the licensing of new banks and established the legal framework for bank holding companies. The RBI has issued numerous guidelines and regulations to commercial banks regarding technological risk management, electronic banking, and cyber fraud.

## **THE CHALLENGES OF E-COMMERCE**

- **ATM services**

This is potentially the most generally used electronic financial help in India. Over 1,000,000 ATMs have been installed in India since its inception in the middle of the 1990s. Private banks, led by ICICI Bank, took this initiative, and they have worked hard to make it popular. On the other hand, ATM services face their own set of challenges.<sup>12</sup>

### **1. Inadequate infrastructure**

The lack of a suitable location, electricity, and satellite (VSAT) / internet access has hampered the service's expansion into rural and semi-urban regions.

### **2. Safety Concerns**

While ATMs in urban communities are typically positioned in clogged places and monitors are not difficult to get, this isn't true in rustic locales. The catch-filled machines make them easy targets if they don't have enough protection. It's likewise tricky since, dissimilar to different nations all through the world, there's no association with the state police device.

### **3. Working Environment**

India is a multicultural nation with multiple languages. Our literacy rates aren't all that great. It becomes difficult to display instructions in different languages. Technology, on the other hand, has solved this issue. However, people who are illiterate are unable to benefit from technology, and ATMs are subject to severe wear and tear because they are unable to guarantee that all users will operate at the same level.<sup>13</sup>

- **Debit/Credit Card Services**

One of the banking services that has seen the most growth in recent decades is credit and debit cards. While Western banks like as Citibank and Standard Contracted were among quick to give them (especially Mastercards), it was the new age of Indian confidential area banks like ICICI and HDFC

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<sup>12</sup> Chiemeké, S. C., Ewwiekpaefe, A. and Chete, F. (2006), "The Adoption of Internet Banking in Nigeria: An Empirical Investigation, Journal of Internet Banking and Commerce", vol. 11, No.3, pp 33-49

<sup>13</sup> David Whiteley, (2001) "E-Commerce Strategy, Technologies and Applications", Tata McGraw Hill, pp. 3-143

that received the greatest rewards from this turn of events. As a result, plastic money entered the Indian economy, attracting literate, young, middle-class urbanites. However, they also come with a few challenges.<sup>14</sup>

### **1. PIN Protection**

It is a huge deterrent to survive. To withdraw funds from a credit card, all you need is a four-digit PIN (Personal Identification Number). This smoothes out work to a bigger degree for an electronic framework. Nonetheless, the human brain, with its cutoff points, makes it difficult to hold this number, particularly for inventive and ignorant people the same. With the technologies of today, it is also quite simple to break a four-digit code with only 10,000 possible combinations. Biometrics, then again, has an answer as finger engraves.<sup>15</sup>

### **2. Swipe/Signature Authentication**

While shopping, most of Mastercards are swiped to demonstrate an asset move. Even though a slip is made for customers to sign, the bank has rarely tallied the signature when settling claims. A store has also never been able to count signatures because most customers don't sign their cards on the back. As a result, card swiping is frowned upon by both customers and businesses, particularly in rural areas. It is extremely difficult to resolve the conflicts.<sup>16</sup>

### **3. Fees for service**

The "VISA or MASTER Card" brand is used to issue the vast majority of credit cards worldwide. They collaborate with banks to save every useful and pertinent cardholder information. However, they charge for this service.

- **Internet Banking**

It is argued to be the most significant banking innovation of the twentieth century. This is largely due to the rise of the internet and banking automation. The other made sure it reached everyone involved in the activity, whether it was the bank, the customer, or a third-party supplier, while the first made sure manual processes were replaced by automated ones. Notwithstanding, in India, this

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<sup>14</sup> Daft, Richard L. (1982), "Bureaucratic Versus Nonbureaucratic Structure and the process of Innovation and Change", pp. 129-166

<sup>15</sup> Earl, M. (2000), "Evolving the E-Business, Business Strategy Review", pp. 33-38

<sup>16</sup> Eben Otuteye (2003) "A Systematic Approach to E-Business Security", pp. 87-103

transformation still can't seem to emerge in a critical manner. Customers are hesitant to fully embrace it, despite the fact that it represents a significant cost savings for banks in addition to early expenditures.<sup>17</sup>

### **1. Lack of Online Banking Access**

Even when done from home, internet banking is still the fastest and most convenient method of banking, but the country does not have internet banking connectivity. The majority of semi-urban and rural areas remain disconnected or only partially connected. Banks are unable to solve this issue.

### **2. Internet Service Bandwidth**

Bandwidth remains a problem even in areas with sufficient connectivity. The customer does not have personal access to these services, despite the fact that bank offices in this region can afford satellite connectivity and VSAT. Customers lose patience as a result, and connectivity is disrupted. Additionally, it increases branch foot traffic and causes customer dissatisfaction.

### **3. Safety and security**

Across the globe, this is still the most pressing concern regarding Internet Banking. While the Save Bank of India has given guidelines in this regard, the issue keeps on being a cause of stress for the two banks and their clients in India. Despite the fact that smaller banks have already made concessions regarding this issue, fraudsters continue to find ways to evade regulators and banks alike thanks to technological advancements in the industry.

- **Telebanking/Mobile Banking**

In India, mobile telephony, the result of a boom in the telecom industry during the first decade of this century, has led to a massive increase in the number of telecom customers, now reaching over 875 million. This reality has provoked investors to give a rising number of administrations via telephone instead of through branch banking. These administrations incorporate things like check book demands, secret phrase resets, and DD demands, among others. However, there are particular drawbacks to this form of banking.

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<sup>17</sup> Hackbarth, G. & Kettinger W. J. (2000), "Building an E-Business Strategy: Information Systems Management" pp. 78-90

## 1. Lack of literacy

Banking, in contrast to the use of cell phones, requires information on frameworks, regulations, and guidelines. However, the majority of lower-class mobile users are unable to use them and do not comprehend them.

## 2. Technology

Technology might be a major obstacle when it comes to using mobile equipment. Service providers are severely constrained in terms of the capabilities of these devices due to the fact that the majority of customers purchase instruments based on their budgets.

## 3. Penetrability

In contrast to mobile phone service, banking has not reached India's rural core. This is demonstrated by the fact that 83% of Indians do not have a bank account. Consequently, the problem must be addressed at the bank level.

## 4. Security

Due to two factors, this is once more a major concern. a. The Mobile Service Provider's inability to provide a Reliable Network in the Area b. Information leakage as a result of a mobile device's easy accessibility in addition, apps on a smartphone always run the risk of accessing data stored on the device and stealing sensitive information.

- **Transfer of funds via electronic means**

One of the most significant E-Banking implementations, this function has greatly benefited businesses. At first, only intrabank transactions were available in real time. All intra bank move continuously (RTGS) turned into a reality after the Hold Bank of India put forth the attempt to interface India's planned banks. However, this technology still requires a lot more work because of the following issues.

- **Transfers of funds limitation**

Even if the RBI has restricted financial transfers via Internet Banking due to security concerns, it is inconvenient and time-consuming to visit a bank each time a larger fund transfer is required. In order

to ensure that the same thing occurs from an office computer as it does from a bank branch, there needs to be a system in place.

## **ADVANTAGES OF E-COMMERCE FOR BANKS**

Banks have a convincing inspiration to look for online business exchanges. Businesses run the risk of losing out to electronics-based commerce if they don't take advantage of the Internet's opportunities. They would, however, be limited in their ability to independently interact with customers and sellers or offer their own products in the electronic marketplace while they would be processing payments for them. On the other hand, if banks establish an online presence, they should be able to promote traditional banking products more effectively and develop and offer new products that e-commerce participants require.

## **IMPLICATIONS OF THE RISK**

While banks stand to gain from participating in e-commerce, they will also be exposed to significant new risks. The inability of banks to adapt to the changes in the business environment brought on by e-commerce is one example of a strategic risk. Others are functioning, so e-commerce-supporting computers and network infrastructure might break down.<sup>18</sup>

### **1. Strategic risk**

The serious climate in banking and fund will without a doubt be changed by web based business. One gamble for banks is that they might be surprised by the turns of events, incapable to predict or answer fittingly to new types of contest. We refer to this situation as a strategic competitive risk.

Take, for instance, the problem presented by the establishment of Internet-only banks. Such banks will be unconstrained by the necessity to keep a costly branch network when they enter the electronic commercial center. Consequently, these Internet-only banks may offer competitive deposit and lending rates and possibly eliminate many of the fees demanded by larger banks. On the other hand, discount brokers and mutual funds, two examples of on-line financial service providers, may include

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<sup>18</sup> Kalakota, R. and M. Robinson (1999), "E-Business: Roadmap for success", Addison-Wesley, 112-149

additional traditional banking products. Because they are not tied to branch networks, these suppliers may be able to offer extremely low rates on transaction accounts and credit cards.

## **2. Operational Risk**

The incorporation of banks into the electronic economy increases their vulnerability to technical difficulties. In order for banks to successfully promote products via the Internet, it will be essential for their computers and the underlying computer network to operate continuously and smoothly. If individual computers fail, causing customers discomfort, it could damage the reputations of individual banks; A significant amount of business could be lost if the network breaks down. If hackers carried out fraudulent transactions on bank systems, resulting in the organizations ceasing operations, banks could suffer financial losses.

## **MANAGEMENT OF RISK**

In order to effectively manage strategic and operational risks, banks will develop information systems to monitor the financial risk posed by e-commerce. Banks have gained ground in developing the executives frameworks that gauge how much worth is in danger under different presumptions about loan costs, the overall costs of monetary instruments, and other market conditions on the discount side. When legal and regulatory action is required to resolve any issues that arise, it is more difficult to quantify the exposure to strategic and operational risks in e-commerce. Furthermore, there is a lack of historical data on which to base risk predictions because e-commerce is still a relatively new phenomenon.

## **CONCLUSION**

Taking advantage of the opportunities presented by the rise of online commerce, banks are A cost-effective electronic access route has already been implemented by a number of institutions for traditional banking products. Additionally, a number of banks plan to offer innovative solutions geared toward e-commerce. If these efforts are widely supported across the sector, they will alter the makeup of bank business operations. Indeed, as their traditional lines of business become less relevant, banks may find themselves increasingly facilitating e-commerce. Banks would no doubt decrease the size or change the extent of their branch networks in light of such a shift, designating

more assets to the turn of events and upkeep of PC organizations and programming. On the other hand, the precise role that banks play in e-commerce will largely depend on how well they deal with the strategic and operational risks that come with doing business online.

The RBI also provides regulation and guidelines for lowering the risk of hacking, and banks are required to keep customer accounts secret. Yet, at times it has seen that the banks didn't treat the rules in a serious way and happened to which individuals needs to endure. In this way, RBI ought to watch out for the banks and select an expert master connecting with guarantee that banks are utilizing the new advancements. The individual should frequently report bank-related matters to the RBI.

Banking frauds are now a common occurrence in the modern world. The general public places their money in banks primarily for security and not just for the banks' low interest rates. However, when banks commit fraud, the general public loses faith in them. These days, barely a day passes when occurrences of banks fakes and phonies are not detailed in paper and such cheats might go from burglary, theft, fakes connecting with check card and Mastercard and cheats committed through web particularly in examples of web banking.

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