



Reserve Bank Of India Guidelines And Legal Concerns Involved In Internet Banking

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Abstract

The banking industry is regarded as the backbone of the country's economic and financial system, and it is also recognised as a major service sector that contributes significantly to the country's economy. The Indian banking system is governed by the country's central bank, which is also known as the Reserve Bank of India. Internet banking provides access to a diverse range of services and features. Several working groups on Internet banking have been established by the Reserve Bank of India with the goal of discovering new and innovative features in the context of Internet Banking. Electronic banking refers to a series of technological marvels that have occurred in recent history that have involved the use of the Internet to deliver banking products and services as e-banking continues to evolve, it will have a significant impact on the banking industry and on banking relationships in general. E-banking assists banks and the government in maintaining records of transactions, allowing banks to reduce their paperwork while also being extremely time efficient and accurate. It allows customers to avoid standing in long lines for transactions and makes it simple for them to keep track of their spending and transactions.

Keywords: Reserve Bank of India, guideline, legal, internet, banking, etc

1. INTRODUCTION

The banking industry is regarded as the backbone of the country's economic and financial system, and it is also recognised as a major service sector that contributes significantly to the country's economy. The Indian banking system is governed by the country's central bank, which is also known as the Reserve Bank of India. Often referred to as the "Central bank of India," the Reserve Bank of India is the country's central bank. It became a federally owned corporation in 1949. The Reserve Bank of India is the only institution through which the central government can exert control over the banks. According to the RBI Act, 1934, and the Banking Regulation Act, 1949, the Reserve Bank

of India has been given a broad range of powers to carry out its functions (Dr. Unnati Jadon and Dr. Deepak Kr Vashist, 2020). Internet banking refers to the act of conducting banking transactions over the internet in a safe and secure manner. It is also referred to as "online banking" or "web-based banking" in some circles. Transfer of funds, account balance inquiry, payroll processing, bill payment, loan applications, and other services are provided by the bank to its customers through the use of the internet. It refers to a system that provides customers with access to their accounting information as well as vital information relating to the introduction of new products and services introduced by the banks online, thereby reducing the amount of paperwork and telephonic conversations they have to conduct (Dr. Unnati Jadon and Dr. Amit K Srivastav, 2020).

1.1 The Different Types of Internet-Banking

Dial-up banking and web-based banking are the two main types of online banking available.

- i. **Web-based banking:** This type of banking allows customers to access their personal accounts through the use of the Internet.
- ii. **Dial-up banking:** Customers who use dial-up banking can access their account information with the help of a modem, which is connected to the bank's server through which they dial up to the banking. Extranet is a special type of dial-up connection that is used to establish a private network between corporate customers and the bank.

In the context of Internet banking, the following functional levels are the most widely used on the market, as follows:

- a. **Informational:** This level of internet banking is considered to be a form of functional level because it makes all of the information about the bank's products and services available to the bank on a dedicated server.
- b. **Communicative/Simple Transactional:** The Communicative/Simple transactional level, to a certain extent, allows interaction between customers and the bank's systems, such as account enquiries, email, credit applications, and updating of files, such as name and address changes. It does not, however, support the transfer of funds.
- c. **Advanced Transactional:** A new level of Internet banking, advanced transactional, allows customers to make electronic funds transfers from and to their personal accounts, pay bills, and carry out a variety of other transactions through their online banking accounts.

2.1 Key advantages and disadvantages of Internet Banking

Internet banking provides access to a diverse range of services and features. In order to better understand the advantages of Internet banking, we've divided them into two categories, which are listed below.

(A) advantages to customers:

- **Convenience:** The convenience that Internet banking provides to its customers is the most significant benefit that it provides to its customers. Internet banking provides the convenience of keeping track of accounts, making payments, and completing transactions quickly from the comfort of one's own home or office. In fact, non-transactional services such as account updating, ordering cheque books online, and other similar tasks are made significantly easier by the internet in comparison.
- **Availability (24*7):** Another advantage that Internet banking provides to its customers is the ability to access banking services at any time of day or night, 365 days a year, including holidays. Anywhere in the world, the customer has access to their banking facilities at any time of day or night, on any day of the year.
- **Reduced Waiting Time:** When compared to traditional banking, internet banking reduces the amount of time that customers have to wait before they can perform banking activities. The limitations of time and place are also not taken into consideration when conducting Internet banking transactions. As a result, Internet banking allows customers to have a more pleasant overall banking experience by streamlining the process.

(B) Disadvantages of Internet Banking:

- **Security:** When it comes to internet banking, security is of the utmost importance to users. The fear of being scammed is one of the most common concerns potential customers have when conducting financial transactions online. Despite the fact that sophisticated security systems are in place to protect the accounts of clients, there is always the possibility of sensitive information being compromised. Another area of concern in internet banking is the threat of identity theft.
- When it comes to transactions that are complex and require personal interaction between the customer and bank officials, internet banking will fall short. Customers will be required to make a personal visit to the bank in order to complete such transactions, which are considered complex. It is not possible to

perform certain services such as bank signatures, guarantee signatures, and notarizations over the Internet.

- **Difficulty in Maintaining Relationships:** Internet banking has made it difficult for bankers to maintain long-term relationships with their clients as well as with their employees and customers. Pre-internet, people were able to maintain their personal relationships successfully with ease. Bankers provided their clients with specialised services, financial advice, and information about financial matters on an individual basis. In addition, those with a better acquaintanceship were offered certain benefits such as waived personal interest, service fees, and other fees, which were not available through Internet banking.

3. RBI GUIDELINES ON INTERNET BANKING IN INDIA

Several working groups on Internet banking have been established by the Reserve Bank of India with the goal of discovering new and innovative features in the context of Internet Banking. Some of the most significant issues relating to Internet banking were discussed, including (i) technology and security issues, (ii) legal issues, and (iii) governmental regulatory and supervisory issues. The Central Bank of the country has given its full support to the recommendations made by the working group (Dr. Ankur Kumar Agrawal, 2020). The following guidelines have been established to assist the banks in putting their plans into action. On the basis of the original report, additional banks may be directed in the direction of certain issues.

- **Technology and Security standards:** In the first section, it was stated that banks should concentrate on designing a system that includes a data base administrator and a well-described security policy for the banks that has been agreed upon by the members of the board of directors, and that they should also introduce a rational way of accessing control over data, systems as well as computer software applications, lines of telecommunication, libraries, and software systems, among other things. In addition, firewalls should be utilised by banks for in-depth monitoring and for maintaining a high level of control. In order to conduct secure internet transactions, banks should make use of public key infrastructure (PKI). In addition to this, all unnecessary services should be turned off and decommissioned. Additionally, all security violations should be reported, and the necessary actions should be taken in order to formulate future security policy guidelines. There should be an understanding among the financial institutions that all threats must be taken into account.
- **Legal Issues:** Taking into account the current legal environment, it has become legal for banks to conduct investigations into the reliability and character of potential customers in addition to establishing identity. Another legal consideration is that the process of ensuring security implemented by banks

with a view to validating the needs of users should be accepted legally as a substitute for signature. Furthermore, banks should ensure that the confidential information about their customers' accounts is kept confidential. The privileges and responsibilities afforded to customers who use Internet banking services should also be considered, and customers should be protected from risks arising from their use of Internet banking services should be taken into consideration by Indian banks as well.

- **Regulatory and Supervisory Issues:** It is taken into consideration that the products offered by Internet banking will be made available to residents of India only by banks that are certified and administered by the Reserve Bank of India and have a significant presence in the country. Account holders should be the only ones who have access to additional Internet banking services. Furthermore, it is necessary to limit the services to products that are available in the customer's home country currency. In addition, Indian banks with overseas branches will make Internet banking services available to their international customers in the near future.

4. ELECTRONIC BANKING SERVICES IN INDIA

Electronic banking refers to a series of technological marvels that have occurred in recent history that have involved the use of the Internet to deliver banking products and services as e-banking continues to evolve, it will have a significant impact on the banking industry and on banking relationships in general. Banking is no longer restricted to physical branches, where one must physically visit the branch in order to withdraw cash, deposit a check, or request a statement of accounts. If you are using true E-Banking, any inquiry or transaction is processed online without the need to visit a branch (you can do your banking from anywhere at any time). Providing electronic banking services is increasingly becoming a "must have" rather than a "nice to have." Since the internet is the most cost-effective way to provide banking services, net banking has thus become the norm rather than the exception in many developed countries, as opposed to the exception in the past.

When it comes to banking services, the term "e-banking" refers to the use of the Internet as a remote delivery channel. Traditional banking services, such as opening a deposit account or transferring funds between different accounts, as well as new banking services, such as electronic bill presentation and payment, are all examples of what is available. In addition to being a delivery method for banking services, e-banking can also be used as a strategic tool for business development. It has gained widespread acceptance in the international community and is catching up quickly in India, where more and more banks are joining the fray (Maheshwari M., Singh K. P., Kuntal A. S., Shweta, 2020). As a result of the introduction of net banking, India can be considered to be on the verge of a major banking revolution. In 1998, only about 1 percent of Internet

users used the service to conduct banking transactions. In March 2000, this figure increased to 16.7 percent. As a result, there is tremendous room for growth in this industry. Customers would be discouraged from visiting physical branches if banks offered additional incentives, and they would become "hooked" on the convenience of arm-chair banking as a result. The ability to access their accounts from anywhere in the world by using a home computer with an Internet connection is particularly appealing to people who have a number of different banking accounts. The costs of providing banking services through the Internet are a fraction of the costs associated with traditional methods. As a result, the country's cost-conscious banks are actively considering the use of the Internet as a channel for providing services. Banks that are fully computerised and have better management of their customer base are in a better position to cross-sell their products through this channel of distribution.

5. LEGAL CONCERNS INVOLVED WITH ELECTRONIC BANKING SYSTEMS

Several enactments, most notably the Banking Regulations Act, 1949, as well as the Reserve Bank of India Act, 1934, and the Foreign Exchange Management Act, 1999, provide the legal framework for banking in India. In general, under the Banking Regulations Act, 1949, no entity can carry on the business of a bank in India unless it has obtained a license from the Reserve Bank of India. This Act specifies the types of activities that a bank may engage in as well as other prudential requirements that must be met by the institution. Deposits from the general public are subject to regulatory provisions under the Reserve Bank of India Act 1934 when accepted by a non-bank (Singh, et. al, 2020). No Indian resident can lend to or open a foreign currency account with a non-resident, including a non-resident bank, except in certain limited circumstances specified by law under the Foreign Exchange Management Act 1999. Beyond these, banking activity is influenced by a number of enactments governing trade and commerce, including the Indian Contract Act of 1872, the Negotiable Instruments Act of 1881, the Indian Evidence Act of 1872 and the Indian Evidence Act of 1872, among others. E-Banking is an extension of traditional banking that makes use of the Internet both as a means of receiving instructions from customers and as a means of providing banking services. As a result, various legal provisions that are applicable to traditional banking activities are also applicable to electronic banking activities, at least conceptually.

Cross-border transactions carried out over the Internet raise the issue of jurisdiction and the conflict of laws between different countries, which must be addressed. It is believed that the dichotomy between global integration of trade and finance through ecommerce and divergence of national laws is a major barrier to ecommerce/internet banking, which is why the process of harmonisation and standardisation of laws relating to money, banking, and financial services has been set in motion. The Model Law of the United Nations Commission on International Trade Law (UNCITRAL), which

was adopted by the General Assembly of the United Nations and has been recommended to member countries for consideration when revising or adopting their laws on electronic commerce, is a significant step in this direction. The Information Technology Act, 2000, was enacted by the Indian government in order to provide legal recognition for transactions carried out through electronic data interchange and other forms of electronic communication, which are collectively referred to as "electronic commerce." It took effect on October 17, 2000, and was based on the Model Law as well as other legal precedents and principles. In order to facilitate e-commerce in India, the Act has also amended certain provisions of the Indian Penal Code, the Indian Evidence Act, 1872, the Bankers Book of Evidence Act, 1891, and the Reserve Bank of India Act 1934.

5.1 Possibilities in the field of electronic banking

- i. The internet offers an ever-expanding market, both in terms of the number of potential customers and the geographic reach of those customers. Access to the Internet has become both cheaper and faster as a result of technological advancement. People all over the world are using computers or other devices to connect to the internet, and the number of people doing so is growing. A significant amount of purchasing power and a strong desire for high-quality service exist among this group of consumers. Anyone who has access to the Internet, regardless of where they are located, is a potential customer. As a result, any business that caters to final consumers cannot afford to ignore the business opportunities offered by the Internet.
- ii. The Internet provides a one-of-a-kind opportunity to establish a company's presence in a global market. Its effectiveness in disseminating information about a company's operations in a relatively cost-effective manner is tremendously impressive. Information that must be updated in a timely manner can be updated more quickly than on any other medium. In comparison to other forms of media, a well-designed website can communicate a more accurate and focused image of a product or service.
- iii. The level of service provided is an important aspect of any e-commerce venture. The ability to sell one's product at any time and from any location while maintaining customer satisfaction is critical for the success of an e-business. The internet provides such an opportunity because a company's presence is not restricted by time zone or geographical boundaries. E-business capabilities such as responding to customers' queries through e-mail, creating (Frequently Asked Questions) FAQ pages for anticipated queries in advance, providing an interactive help line, accepting customers' complaints online 24 hours a day and attending to

the same, and other features such as offering interactive help lines are some of the features of e-business that improve the quality of service to customers.

6. CONCLUSION

E-banking assists banks and the government in maintaining records of transactions, allowing banks to reduce their paperwork while also being extremely time efficient and accurate. It allows customers to avoid standing in long lines for transactions and makes it simple for them to keep track of their spending and transactions. In other words, e-banking is the future of banking, and we as individuals, financial institutions, and governments must embrace it gracefully and with an open mind. Because of the increasing number of online frauds, cheating cases, and hacking incidents, customers are increasingly concerned about their security and privacy. Despite the fact that the banks in India that provide E-Banking services use 128-bit encryption to protect their customers, there have been reports of fraud in India. In order to provide adequate security to customers and prevent fraud, banks should make a commitment to do so. Security and confidentiality of a customer's account are essential, and banks must implement adequate risk control measures to protect against hacking and technological failures.

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