

ANALYSIS OF INTERNET BANKING ALONG WITH LEGAL ASPECTS IN INDIA

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Abstract

Through the use of Internet banking, the Indian financial system has the potential to become cashless. Internet banking is often referred to as “e-banking, online banking, virtual banking”, or other similar terms. An “electronic payment system” that allows clients of banks or other Banking organizations to undertake a variety of financial operations via the web pages of those Banking organizations is known as a payment gateway. It is possible to conduct various types of online monetary transactions, collectively referred to as core banking, including the "Nation Electronic Fund Transfer (NEFT), Real-time gross settlement (RTGS), Electronic clearing system (ECS), Immediate Payment Service (IMPS), Automated Teller Machine (ATM), Smart cards, and Tele banking". We have the ability to check our accounts at any moment of the day or as numerous times as we desire using Internet banking services. The number of online banking scams in India has skyrocketed in recent years. At present, there is insufficient Internet banking legislation in India. Even though the RBI has published some instructions in this area at the most recent opportunity, they are inadequate to ensure that banks adhere to rigorous and necessary cyber safety procedures. The paper talks about the most recent developments in Internet banking, including cyber security issues, as well as its benefits and downsides. It also talks about the regulatory framework in place in India to protect customers from cybercrime and identity theft.

Keywords:Digital banking, fundamental banking, technologies, computer security, and legal challenges are all topics covered in this course.

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Introduction

“India has seen a dream of Digital India. From latest science to latest technology, everything should be available at the tip of one's finger.” - Narendra Modi

The banking sector has always played a significant part in the development of any country's economy. It is essential for every country since it meets the demands of all parts of society in terms of credit, regardless of their economic status. The strength of India's financial system contributes to the country's economic potential. The introduction of information technology into the banking sector has drastically transformed the way in which the banking industry operates. Banks had no choice but to embrace this new transformation in order to succeed in the new globalization era. Nowadays, most financial transactions take place while you are drinking your coffee or on a crucial phone call. ATMs are just outside your door. Plastic cards outnumber money notes in your wallet by a factor of three. The introduction of information technology has played a significant role in this transformation. In the modern environment, banks must function in an atmosphere that is extremely transnational, liberalized, commercialized, and competitive.¹

¹ Online banking users in India to reach 150 million by 2020 according to a Study The Financial Express, available at <https://www.financialexpress.com/industry/banking-finance/online-banking-users-in-india-to-reach-150-billion-by-2020-according-to-a-study/7310> (last visited Feb 27, 2022)

Internet Banking

As per the Daniel “Internet banking or E-banking is the term that signifies and encompasses the entire sphere of technology initiatives that have taken place in the banking industry. E-banking is a generic term making use of electronic channels through telephone, mobile phones, internet etc. for delivery of banking services and products. Internet banking as the delivery of bank's information and services by banks to customers via different delivery platforms that can be used with different terminal devices such as a personal computer and a mobile phone with browser or desktop software, telephone or digital television”. Internet banking is defined by **Barron’s Dictionary (2006)** as “A form of banking where funds are transferred through an exchange of electronic signals between financial institutions, rather than an exchange of cash, checks, or other negotiable instruments”.

Internet Banking Versus Traditional Banking

The old banking system required a customer to be physically present at the bank's branch locations for several years before an account could be opened. Individual to individual engagement is provided by conventional banking. Conventional banks have a number of problems, including a set timetable, unsuitable locations, and a restricted range of financial goods. When using online banking, the quickest and most convenient way to start a savings account is to connect it to an already existing account. It is possible to complete business transactions with a

single "click." Users may still handle any accounts while remaining at home since there is no verbal contact required and no big lines at the counter. When compared to traditional banking, "internet banking is easier, more convenient, and more flexible. It also has more services available 24 hours a day, seven days a week, and" is more flexible².

Components of Internet Banking

The following are the primary characteristics of electronic banking:

1. Banking operations are carried out via the use of the internet.
2. Because it can reach clients at various counters and jurisdictions, it removes the conventional geographical restrictions that existed.
3. E-banking makes it possible to conduct financial transactions at any time and on any day of the week, especially on vacations and weekends.
4. This development enables the introduction of a number of novel distribution techniques that are easier and more cost-effective for both customers and banking organizations.
5. The utilization of technological devices that save both time and money for the banker and the

² Internet Banking – Legal Issues – Rajdeep and Joyeeta Rajdeepandjoyeeta.com, available at <http://rajdeepandjoyeeta.com/internet-banking-legal-issues/> (last visited Feb 27, 2022)

customer is a key component of the system's foundation in technology and research.

6. In this case, it makes sure that the money transfer is safe, and it also makes sure that the consumer is not going to be found out and that the money is real.

Advantages of Internet Banking:

Convenience: This would be the absolute most essential advantage of online banking, and it outweighs any disadvantages. Performing money transfers from the convenience of one's own home or workplace at the touch of a button, without ever having to leave the house, is a convenience that no one would want to do without. In comparison to visiting the bank to keep a record of accounts, regular monitoring of accounts on the internet is far more comfortable and quicker. Even non-transactional services such as purchasing cheque books online, maintaining accounts, asking about interest rates for different financial products, and so on, become considerably more convenient when done over the internet.

Higher Interest Rates: Because online banking requires less physical effort on the part of the bank, the banks stand to earn greatly from the usage of the service. With the reduction in the need to expand office space and hire additional people to deal with clients, banks will see a major reduction in their operating costs, resulting in a net financial benefit. The result is that a percentage of the savings gained may be passed on to consumers in the form

of higher interest rates on deposits as well as lower interest rates on loans, respectively. Most banks provide low or no deposit accounts for internet banking, as well as reduced penalties for early withdrawals from Fixed Deposits, in order to promote the use of the service.

Services: Technology is making it exceedingly simple for both the bank and the consumer to have access to an incredible number of amazing services by just signing in. They include financial management capabilities, properly functioning budgetary and predicting tools, loan calculators and investment analytical techniques. These facilities, which are accessible as simple applications on the bank's website, encompass equity trading platforms as well as asset analytical techniques as well as loan calculators. Furthermore addition, most banks now provide the option of completing tax forms and preparing tax returns on the internet³.

Mobility: Internet banking has advanced significantly in recent years, with the introduction of mobile internet banking, which provides customers with almost limitless mobility, allowing them to do banking transactions even when on the go.

³ Legal Aspects of Internet Banking in India - International Journal of Law Management & Humanities International Journal of Law Management & Humanities, available at <https://www.ijlmh.com/legal-aspects-of-internet-banking-in-india/> (last visited Feb 27, 2022)

Disadvantages of Internet Banking

Relationships: Online transactions have a negative impact on the connection that a customer has with their banker, which was formerly fostered via a typical visit to the branch office. The manager had a wide range of discretionary rights, such as the ability to waive punitive interest or service fees, which were often abused by employees who had a greater understanding of the company's policies. Additionally, personal contact meant that the banker would be able to give valuable financial advice and insights to the consumer, which was useful to them.

Complicated transactions: The presence of complicated transactions that cannot be resolved without a face-to-face conversation with a manager, which is not feasible via online banking, raises the question of whether internet banking is a good option. Specific difficulties and complaints must be resolved in person at the bank, and this cannot be accomplished over the internet. Many complicated service problems cannot be resolved because online communication is neither clear nor focused. Certain services, such as notarization and bank signature assurance, are not available for completion via the internet.

Security: This is the most serious flaw in the online banking system, and it is the one that the average client must be on the lookout for. Identity theft is another another major source of worry for consumers who do all of their financial transactions over the

internet⁴. In order to combat identity theft, most banks have made it essential to post scanned copies of cleared checks on their websites.

Fourth, trust is the most difficult factor for most people to overcome when it comes to internet banking. Customers prefer traditional banking over internet banking due to a lack of confidence in the security of online transactions. They have the impression that online transactions are hazardous, and as a result, fraud may occur. When clients use e-banking services, a number of questions emerge in their minds, such as: Did the transaction go through? Is it possible that I pressed the transfer button once or twice? Trust is one of the most important variables that impact a customer's desire to do a transaction with a web-based business.

Lack of Customer Awareness: In the Indian context, customer knowledge of e-banking amenities and processes is still on the low side. Banks are unable to effectively convey accurate information regarding the usage, advantages, and capabilities of online banking services. One of the most significant impediments to the growth of e-banking is a lack of understanding of new technology and their advantages⁵.

⁴ Criminal Procedure Code 1973

⁵ Legal issues in internet banking - iPleaders available at <https://blog.iplayers.in/legal-issues-internet-banking/> (last visited Feb 27, 2022)

Types of Internet Banking

National Electronic Fund Transfer: One such payment system is the NEFT, which is a countrywide “payment system that allows for one-to-one cash transfers between individuals. People, businesses, and corporations may transfer money digitally from any bank branch to any other person, company, or corporation who has an account with any other bank branch in the nation participating in the scheme”, as long as both parties agree to the transfer. Transferring cash between individuals, businesses, and corporations that have accounts with a bank branch is possible using the NEFT system. It is also possible for people who don't “have a bank account (walk-in customers) to deposit the money at Net Banking branches with instructions to transfer payments via the NEFT system. Such cash remittances, on the other hand, would be limited to a total of Rs.50,000/-per transaction. As a result, NEFT makes it possible for originators or remitters to commence money transfer operations even if they do not have a bank account. Current NEFT operations are conducted in hourly batches; there are 12 payments each day on weekdays (Monday through Friday) from 8 am to” 7 pm, and six settlements per day on weekends (from 8 am to 1 pm).

Real Time Gross Settlement- RTGS is known as a process (real-time) settlement of financial transactions that are carried out individually and order-by-order on a global scale (without netting). When we say "Real Time," we mean that instructions are

processed immediately rather than at a later moment; when we say "Gross Settlement," we mean that wire transfer orders are settled immediately at the time of receipt, rather than at a later time. A payment is final and irreversible when it is made since the money settlement takes place on the records of the RBI. The RTGS is designed especially for high-value transactions. The RTGS system accepts payments of up to Rs. 2 lakhs as a minimum. There is no upper limit to the amount of money that may be sent through RTGS. To settle client transactions at the RBI, banks may use the Real-Time Gross Settlement (RTGS) service, which is accessible to them from 9.00 a.m. to 16.30 p.m. on weekdays and from 9.00 a.m. to 14.00 p.m. on weekends. The banks' operating hours, on the other hand, may vary based on the hours that their customers use their bank locations.

Electronic Clearing System: ECS stands for an alternative approach for effecting money transfers in respect of "utility bill payments such as telephone bills," power bills, insurance payments, card payments, and debt payments, among others, that eliminates the need for releasing and ability to handle paper instruments and thereby allows banks, businesses, corporate entities, and government agencies, among others, to provide better customer service to those who make the payments.

Immediate Payment Service: IMPS is a cell-phone inter-bank electronic money transfer system that is accessible 24 hours a day, 7 days a week. According to the Indian Bankers' Association,“

IMPS is a powerful tool for transferring money instantaneously between banks throughout India by mobile, internet, and ATM, and it is not only secure but also cost-effective from both a financial and non-financial standpoint.”

Legal Issues in Internet Banking in India

India is a member of the World Trade Organization. Liberalization, globalization, and privatization are the three fundamental concepts of the World Trade Organization. As a result, trade and commerce in India have been more liberalized in recent years. In addition, the financial industry has witnessed significant changes as well. The introduction of e-banking has exposed the Indian banking sector to unparalleled competition from the rest of the world. If the financial industry does not keep up with technological advances, international commerce will remain a distant dream. In conjunction with the development of new technology, the deregulation of the banking sector has made it possible for new rivals to enter the financial services market in a timely and efficient manner. As explained below, a number of legal rules that apply to conventional banking activities are also relevant to online banking activities. However, this does not completely resolve the issues, and as a result, more severe regulations and legislation must be enacted, particularly to address the issues of electronic banking. The legal basis for banking in India is given by a number of legislations, including-

- “The Banking Regulation Act 1949,

- The Reserve Bank of India Act 1934 and
- The Foreign Exchange Management Act 1999
- The Information Technology Act 2002
- The Consumer Protection Act 1986
- The Indian Contract Act, 1872
- The Negotiable Instruments Act, 1881
- The Indian Evidence Act 1872”

Smart Card Fraud

According to Indian law, when a person becomes aware that a questionable transaction has been carried out on his or her prepaid debit card or credit card, he or she must promptly notify the card issuer⁶. It is recommended that you make a complaint with the bank and, if possible, phone the customer service number to have the card or account blocked promptly.

How to file a complaint?

It is necessary for the victim to file a complaint regardless of whether the fraud involves net banking, ATM transactions, or any other online activity. The person who wants to file a complaint with the bank must first make sure that he or she has at least the following documents:

- From the relevant bank statement for the previous six months,

⁶ Legal issues in internet banking - iPleaders available at <https://blog.ipleaders.in/legal-issues-internet-banking/> (last visited Feb 27, 2022)

- a copy of any SMS messages you received in connection with the claimed transactions; and
- a copy of your identification and address proof as it appears on your bank records.
- With the above-mentioned papers, you should file a complaint with your local police station, stating what happened in detail.

False applications are being circulated in large quantities in the cyber realm. Any financial fraud done through an app would need more evidence, like a screenshot of the infected software and information about where it came from, in addition to the materials above.

Where to file the complaint?

If you suspect fraudulent activity and have alerted the card issuer or your bank of the suspicion, you should submit a formal complaint with the local police station. In order to register a FIR⁹, you must go to your local police station. In the event that the police refuse to file a FIR, the court may be petitioned according to Section 156(3) of the Criminal Procedure Code. What happens, though, if the police request that you go to the Cyber Cell to submit a complaint? It is necessary for the individual to contact the cyber cell in question. He has the option of filing an FIR at the local police station. The cases are sent to the Cyber Cell by the respective police stations. Anyone who desires to file a complaint with the cyber cell directly, rather than via the police, may do so at

any time after filing a complaint with the police. The Internet can be used to find the contact information for a district cyber cell that is specific to where the person lives.

Responsibility in The Event of a Fraudulent Transaction

When fraud occurs, and the financial institution “is not at fault, and the fraud was performed by a third party via an act of scammer, phishing, or other means, the RBI guidelines provide that the client is not obligated to pay if the breach is disclosed within 3 days of the fraud transaction taking place. The customer's per transaction liability will be restricted to the”“transaction value or an amount established by the Central Bank, whichever is smaller, if the transaction is reported after that but within seven days of the first reporting date. Furthermore, if customers wait more than 7 days”, "the customer's liability shall be determined as per the bank's board-approved policy," according to the RBI warning. Following notification to the bank, the resolution process must be completed within 90 days, according to RBI rules. Ten business days after a customer tells a bank that an electronic funds transfer was made without permission, the bank must credit or cancel that money⁷.

Suggestions

1. Banks are required to safeguard the confidentiality of their customers' accounts. The RBI has issued a new circular

⁷ INTERNET BANKING AND LEGAL REMEDIES Lex life India, available at <https://lexlife.in/2021/07/01/internet-banking-and-legal-remedies/> (last visited Feb 27, 2022)

that includes recommendations for reducing the risk of hacking. The banker is responsible for incorporating technological advances in order to perform his or her duties more efficiently. The Reserve Bank of India should also verify that banks are using the most up-to-date technologies. The RBI should hire technicians and tell them to report security breaches in accordance with security rules.

2. As a result, the auditor hired to alert the authorities discovered misuse of money at the most minute level. Because of the lack of detection, the risk of bankers misusing money has gone up because of electronic banking.
3. The automatic teller machine (ATM) malfunctions often, causing trouble for the consumer. It must be said how many times banks haven't been fined for making mistakes like this in their next circular. After reaching a certain threshold, banks are required to pay a penalty, which serves as a reminder to them to keep an eye on the machine's operation.
4. The Consumer Protection Act is distinguished by its ability to provide justice more quickly and at a lower cost. Furthermore, as previously mentioned, the Act applies to financial services as well. Especially in cases where ATM machines don't work very often, security precautions aren't

taken, and banks charge too much for cash payments, the Act should be widened to include digital transactions. However, even though this is covered by the RBI circular, it is recommended that they be placed within the scope of the law, which would be more convenient for clients.

Conclusion

Customer resistance to electronic banking continues to exist among Indian bank customers. Understanding the underlying causes of this reluctance might be beneficial for bank executives when developing efforts to encourage more people to utilize online banking. To keep fraudsters at bay, law enforcement must go the additional mile when compared to what they are up against on the battlefield of cybercrime. When it comes to technology, it's "always a double-edged sword that may be utilized for both good and negative reasons. According to the preamble of the Information Technology Act 2000, the Act was created with the goal of providing legal recognition for transactions carried out using electronic data interchange and other forms of e-commerce technology. The Act has also" amended the "Indian Penal Code (1860), the Indian Evidence Act (1872), the Bankers' Books of Evidence Act (1891), and the Reserve Bank of India Act 1934" in order to make legal recognition and control of commercial operations more accessible to the public. However, although the goal of the Act is not to repress economic activity, it has specified specific offenses and penalties to suffocate such omissions, which

are believed to fall within the category of cybercrimes. Customers' concerns about security while using e-banking services continue to be a major source of worry, and the current regulation is insufficient to address these concerns. It has been difficult to bring the provisions before a court of law because of a lack of clarity in the laws themselves. The legal concerns surrounding Internet banking in India must be taken more seriously by all parties involved, particularly Indian financial institutions. Indian banks, on the other hand, won't see a more positive outcome until they have to follow cyber security rules.