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Computerization in Banks -Some Issues

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Abstract

Computerization became popular in the western countries right from the Sixties. Main Frames were extensively used both by the Public Institutions and Major Private Organizations. In the Seventies Mini Computer became popular and Personal Computers in early Eighties, followed by introduction of several software products in high level language and simultaneous advancement in networking technology. This enabled the use of personal computers extensively in offices & commercial organisations for processing different kinds of data. However in India organized Trade Unions were against introduction of computers in Public Offices. Computerization was restricted to major scientific research organizations and Technical Institutes and defense organizations. Indian Railways first accepted computerization for operational efficiency.

Key words: Computer, Banks, organizations, software, networking, technology etc.

Introduction

As the Indian banking and financial system develops and gets integrated with the international financial markets, it has to be technically ready to meet the challenges. The banks in India are gearing to shed their age-old style of functioning and to adopt the computer-aided modern system and procedure on the lines of what has been done in other parts of the world. For successful implementation of computerization/ mechanization programme and technology up gradation, cooperation of the indispensable and equally, their apprehensions in this regard need to be removed. The bipartite negotiations between IBA representing bank management and the bank employees' unions constitute a mechanism for resolving various issues about the use of higher technologies in bank and in working out acceptable levels of Computerization.

Way back in 1966, the IBA, alone with the exchange banks association signed the first wage settlement with the unions, which inter alia provide for using IBM or ICT accounting machines for inter branch reconciliation, agency accounts, salary and provident fund accounts, etc. In 1983, for the first time a comprehensive settlement exclusively for computerization/ mechanization was signed, providing for installation of Advanced Electronic Ledger Posting Machines (AELPMs) at branches, mini computers at Zonal/Regional Offices and one mainframe computer for each bank. The second computerization settlement of 1987 defined the scope of AELPMs, their configuration and also fixed the parameters for branches where the machines could be installed.

Online banking

A system allowing individuals to perform banking activities at home, via the internet. Some online banks are traditional banks which also offer online banking, while others are online only and have no physical presence. Online banking through traditional banks enable customers to perform all routine transactions, such as account transfers, balance inquiries, bill payments, and stop-payment requests, and some even offer online loan and credit card applications. Account information can be accessed anytime, day or night, and can be done from anywhere. A few online banks update information in real-time, while others do it daily. Once information has been entered, it doesn't need to be re-entered for similar subsequent checks, and future payments can be scheduled to occur automatically. Many bank sallow file transfer between their program and popular accounting software packages, to simplify record keeping. Despite the advantages, there are a few drawbacks. It does take some time to set up and get used to an online account. Also, some banks only offer online banking in a limited area. In addition, when an account holder pays online, he/she may have to put in a check request as much as two weeks before the payment is due, but the bank may withdraw the money from the account the day that request is received, meaning the person has lost up to two weeks of interest on that payment. Online-only banks have a few additional drawbacks: an account holder has to mail in deposits (other than direct deposits), and some services that traditional banks offer are difficult or impossible for online-only banks to offer, such as traveler's checks and cashier's checks.

Management of cross border risks

Cross border risks may be more complex than risks banks face within their home country. Hence, banks and supervisors may need to devote added attention to assessing, controlling, and monitoring operational, reputational, legal and other risks arising from cross border electronic banking and electronic money activities. Banks that choose to provide services to customers in different national markets will need to understand different national legal requirements, and develop an appreciation for national differences in customer expectations and knowledge of products and services.

Issues in Risk Management in Online Banking

The problem arising with the banks is that they have already invested huge amount of money in the online initiatives and their online offerings are remaining unprofitable. Banks are already having its existing customers so they are not getting large number of customers. Just enrolling customers to use the id will not be sufficient, the user will have to use the website frequently. Banks should make efforts to increase the usage of their site by customers and co-ordinate with the branches effectively. By doing this they will be able to obtain maximum value which would include cost reduction, higher customer retention and cross-selling opportunities. An important issue on which banks must focus on is integrating online channel with all other banks. Integrated channels working together are effective than a group of channels which are working without co-ordination. Internet banking initiatives like risk management and implementing controls follow same principles like other processes. Most dangerous thing is considering risk management a technical problem and leaving it on IT management Following are some of the risks which are integral in online banking:

Strategic Risk: It is one of the prospective and current risks that affect capital arising and earnings from divergent business decisions associated mainly with Board and Management decisions. As senior management is responsible for developing the business’s strategy and establishing of management affective oversight over risks, then they are predictable to take an informed and planned strategic decision as whether and how the bank is providing e-banking services. There are many managers who do not understand strategic and technical aspects of the Internet Banking. Encouraged by the competition, banks introduce online banking without cost-benefit analysis even if the management does not have plan, manage and monitor the performance of technology related to products, services and delivery channels. Poor investment decisions and e-banking planning can increase a financial institution's strategic risk.

Operational-Transactional Risk: Transactional risk is also known as IT or security risk which affects capital arising and earnings from fraud, abandon, error and the inability to maintain predictable service levels. One of the important challenges faced by the banks in the online environment is predicting and managing the number of that the banks want to obtain. Certain factors like structure and complexity of banking products, types of services offered, difficulty of understanding and executing new technologies will increase the level of operational risk, especially when the institutions recommend innovative services that are not yet standardized.

Information Security Risk: Information security risk has negative impact on capital arising and earnings out of information security processes, and thus revealing the institution about the insider attacks or malicious hacker, denial-of-service attacks, viruses, data theft, fraud and data destruction. Most sensitive computer systems are used for storing highly confidential information and for high value payments which are tend to be most carefully secured. The programmes and viruses or anti viruses and security systems must be updated whenever required.

Credit Risk: A customer's failure to meet his financial commitments is called credit risk. Internet banking allows customers to apply for praise or credit from anywhere in the world. It is very difficult for the banks to verify the identification of the customer, if they are making payment through the internet. Verifying guarantees and if the person is in another country then in case of conflict different dominion procedures may cause difficulties.

Conclusion

Internet banking has some inherent risks due to its nature. Legal system is still not very well defined across the globe, internet is prone to hackers and hence fraudulent risks are always there. The factor that technology is designed, driven and controlled by outside non bank people is a constant threat. The rapid pace of change of information technology presents the banks with the risk of system obsolescence and hence huge costs. In spite of the hardware and software technologies like firewalls, encryption and authentication there is risk perception in transactions particularly of high value. The legal position regarding information technology actions and crimes is still not very sound. Though after amending various exiting laws the IT act 2000 was passed but soon after the debate started and an amendment came in 2006 which was passed in a new act in 2008. Again there is a feeling that the laws around the globe are neither complete nor in perfect harmony as they should be as internet is a global medium. There is a risk of non bank organization emerging as banks through internet and start offering more lucrative facilities or virtual banks may come up without having any physical presence.

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