

# Employees' Perspective on Internet Banking Regulations and Their Impact on Banks

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**Abstract**—*The banking industry is one of the most highly regulated industries in India. The banking sector has become highly competitive over the years. New services are being introduced by the banks every now and then. This has resulted in the change of the banking regulations frequently. Internet banking is amongst one of the most recent and popular services introduced by the banks. With the introduction of internet banking services, banking has become easier and more convenient for the consumers. But, with this convenience, the issue of security has arisen. The security of the consumers as well as the banks has come at stake with the system being vulnerable to cyber crime. As such, a large number of regulations have been set up by the RBI in order to safeguard the consumers and banks from these criminal activities. But the question arises as to how far these regulations have been effective. In this paper, an attempt has been made to find out the awareness among the bank employees about the internet banking regulations. Furthermore, the impact of these regulations on the effectiveness of the employees is highlighted. In doing so, the bank employees' perspective on the internet banking regulations has been studied. This study is analytical in nature, based on data collected with the help of specially designed questionnaire from bank employees who have been conveniently selected for the study.*

**Keywords:** *Banking industry, Internet Banking, Internet Banking Regulations, Employees' Perspective, Employees' Effectiveness.*

## 1. INTRODUCTION

The banking system in India has undergone radical changes during the 23 years since the introduction of the Economic Reforms of 1992. The introduction of liberalisation, globalisation and privatization in the country, had led to a decrease in the number of regulations in the various industries. The banking industry still is one of the most highly regulated industries in India. Along with the Banking Regulation Act of 1969, the RBI regulations and the government policies also have a huge impact on the banking industry. The rules in banking can affect both the structure of the industry and the performance of the individual firms. The RBI is the highest authority in the banking sector in India. It issues a number of regulations on the banks operating in the country. The regulations change with changes in the economy. Changes in the government also bring about changes in the policies

relating to the banking sector. Changes in the banking regulations have a huge impact on the performance of the banks.

Over the years, the banks have introduced many new services. With the introduction of the new services, the regulations guiding the banks have also been changed time and again. One of the banking services which has been very popular in the recent times is internet banking. Internet banking, also known as online banking or web banking, is a system allowing individuals to perform banking activities via the internet. Under internet banking, banks offer customers almost every traditional banking service available. The only difference is that, in case of internet banking, all the transactions take place online. Individuals can avail online banking services without visiting the bank branch. Online banking allows customers to monitor their accounts, transfer funds, and make payments, etc from their accounts through the internet. This has made banking much easier and convenient for the customers. But this system of banking is prone to security issues. This system is vulnerable to cyber crimes, putting the security of both the banks and its customers at stake. To protect the investors and the banks from such crimes, the RBI has introduced a number of regulations to guide the banks. But the question arises as to how far have these regulations been effective. Another point that arises here is do all the banks follow these regulations?

This paper attempts to study the awareness among the bank employees about the regulations of internet banking. It also tries to find out whether the regulations are being followed by the banks or not. Furthermore, the impact of these regulations on the effectiveness of the employees has been studied by trying to find out the employees' perspective on these regulations.

## 2. REGULATIONS OF INTERNET BANKING

The Indian banking system is guided by a number of rules and regulations. The Banking Regulation Act, 1949 is the legislation that regulates the banks in India. In addition to the Banking Regulation Act of 1949, the central bank of the country, Reserve Bank of India, has also laid down a number

of guidelines for the banks in India. The government also formulates policies from time to time which the banks have to follow. All these rules and regulations guiding the Indian banking services are applicable to internet banking also. Over and above these regulations, the RBI has put forward many more guidelines in case of internet banking. The RBI had set up a 'Working Group on Internet Banking' to examine the different aspects of internet banking. The focus has been on three areas of internet banking viz., (i) technology and security standards, (ii) legal issues, and (iii) regulatory and supervisory issues.

Under technology and security standards, banks should, at minimum, use the proxy server type of firewall so that there is no direct connection between the internet and the bank's system. Every bank should have a security policy which has been duly approved by the Board of Directors. Moreover, the banks should have proper infrastructure for backing up data in order to facilitate recovery of lost data. Banks are also required to keep all received and sent messages in both encrypted and decrypted form for legal purposes.

From the legal perspective, it is obligatory for the banks to not only establish the identity, but also make enquiries about the integrity and reputation of the prospective customer. The Information Technology Act, 2000 has provided for the asymmetric crypto system and hash function for authenticating electronic records in India. If any bank uses any other method for authentication, it is to be recognized as a source of legal risk. The banks should also have adequate risk control measures to manage risk of liability to customers of internet banking.

All banks who propose to offer internet banking services are required to obtain prior approval of the RBI. Only those banks which are licensed and supervised in India are eligible for providing internet banking services in India. Any breach or failure of security systems are to be reported to the RBI. For the settlement of e-commerce transactions, 'Inter-bank Payment Gateways' are set up. Only member of the cheque clearing system in the country are permitted to participate in Inter-bank Payment Gateways for online payment. The connectivity between the gateway and the computer system of the member bank should be achieved using a leased line network with appropriate data encryption standard. It is also mandatory for the banks to disclose risks and liabilities of internet banking customers through a disclosure template. There must be clearly defined rights and obligations of each party which should be valid in a court of law.

The banks are required to review their systems from time to time as per the requirements of the changing regulations.

### 3. OBJECTIVES OF THE STUDY

1. The first objective of this study is to find out the awareness amongst the bank employees about the internet banking regulations.

2. The next objective is to determine the level up to which the bank employees follow the internet banking regulations.
3. The last objective is to know about the impact of the internet banking regulations on the efficiency of banks from the employee perspective.

### 4. SCOPE OF THE STUDY

The study is restricted to 100 bank employees. 10 employees each have been selected from each of the 10 banks taken up for the study. The banks included in the study consist of 5 public sector banks and 5 private sector banks. The study was conducted in the Jorhat district of Assam.

### 5. METHODOLOGY OF THE STUDY

The present study is an analytical one with data being collected from employees of banks with the help of specially designed questionnaires. Observation method has also given the researcher certain idea about the employees' perspective on internet banking regulations. For the purpose of the study five banks each from the public and private sector have been randomly selected. The public sector banks selected are State Bank of India, Punjab National Bank, Canara Bank, Bank of Baroda and Union Bank of India. The private sector banks that have been selected are ICICI Bank, HDFC Bank, Axis Bank, IndusInd Bank and Yes Bank. The study has been conducted at Jorhat district of Assam. Both public sector and private sector banks have been selected for the study with the purpose of finding out the difference, if any, between the two sectors in case of internet banking.

The sample size for the present study is 100 with 10 employees each being conveniently selected from the 10 selected banks. The employees selected for the present study include people who have been working in the bank since before the introduction of internet banking and also people who have joined after internet banking became popular. This gives the researcher varied opinion on the impact of internet banking regulations.

The sampling technique used for the present study is convenient sampling. Relevant data have also been collected from secondary sources.

### 6. EMPLOYEES' AWARENESS OF INTERNET BANKING REGULATIONS

The regulations surrounding internet banking are reviewed from time to time by the RBI and the same is notified to all the banks in the country. It is the duty of the banks to make their employees aware of such regulations. But it has been seen that majority of the bank employees are unaware of such regulations or changes in the regulations. The reason maybe that the information is not communicated to the employees or the employees may themselves not be interested in learning

about the regulations. Although the awareness level is higher in case of employees in the private sector banks as compared to the employees of the public sector banks, the awareness is not high enough. It is limited to a very small number of employees. In fact, most of the employees who are aware of the regulations think that these regulations are set by the banks. They are unaware of the fact that it is the RBI who issues these guidelines.

Because of the ignorance on the part of the bank employees about the existing and changing internet banking regulations, these regulations are not being put to work at the operational level of the banks. Even if the employees are aware of the regulations, in many cases it is seen that they avoid these regulations. This is mostly seen in case of the public sector bank employees. If it is possible to continue doing the work without following the regulations, many of the employees are seen to ignore the regulations in many cases. Even if it may be possible to continue doing the work without following the regulations, at some point, problems may arise affecting not only the bank, but also the customers.

## **7. BANK EMPLOYEES' PERSPECTIVE ON INTERNET BANKING REGULATIONS**

The bank employees had everything positive to say about the internet banking regulations. According to majority of the employees, the regulations are very effective. They are also of the opinion that these regulations have made the whole process of internet banking safer for both the banks and the customers. On being questioned if they feel that the regulations can be reduced or if the regulations make the process lengthy for them, the employees opined that the regulations have been very helpful so they should remain. But, on being asked what the different regulations are, the bank employees were not able to give any answer. It is because almost all of the employees at the operational level are unaware of the regulations. Their feedback on the effectiveness of the regulations cannot be taken as the true scenario as because, they do not even know about the regulations.

## **8. IMPACT OF REGULATIONS ON EMPLOYEES' EFFICIENCY**

With the bank employees being unaware of the internet banking regulations, there is very little or no impact of the regulations on the efficiency of the employees. In fact, in many cases it is seen that when the customers approach the bank with any problem relating to internet banking, the bank employees are unable to provide any solution. In many cases, it is seen that the banks do not have any specialized person who can provide the customers with services in the event of any problem arising in case of internet banking. Some banks do have such specialized people but the number of such banks is very less. In some of the banks, they have a technological expert on cluster basis. 10 to 15 branches of a bank are looked

after by one expert. In the absence of such specialized people, the bank employees are the ones who are approached by customers in case of problems. But due to lack of training and unawareness on the part of the employees, they are unable to be of much help to the customers.

There are some employees who are to some extent acquainted with the internet banking regulations. If and when some problem arises, these employees are responsible for the finding some sort of a solution for the same. As such, the workload of these employees increases. Due to this extra burden, the efficiency of these employees is negatively affected. But, in majority of the cases, the internet banking regulations have no impact on the efficiency of the workers as the workers do not follow these regulations.

## **9. CONCLUSION**

With the increase in the number of crimes or frauds in case of internet banking, the RBI has put forward a number of regulations to be followed by the banks providing internet banking services, in order to curb the fraudulent activities. But these regulations remain in theory. In case of majority of the banks, practical application of these regulations is not found. Whether it be due to unawareness on part of the employees about these regulations or avoidance of following these regulations by the employees, most of the regulations have been ignored. It is the employees at the operational level who are mainly responsible for the smooth functioning of the banking operations. But if the employees themselves do not abide by the regulations, it cannot be expected for the banks to function properly. If the regulations are ignored then the main objective of the RBI behind setting up of the regulations, remains unfulfilled.

The main objective behind this study was to find out about the bank employees' perspective on the internet banking regulations. But the study pointed out that majority of the employees are unaware of the regulations and many of them do not follow these regulations. So, the objective has remained unfulfilled to a certain extent as the employees had no or very limited opinion to provide in this matter. Although most of the employees tried to portray a rosy picture, extensive study put forward a completely different story altogether. With the increase in the level of the cyber crimes, it is the responsibility of the banks to follow any regulation that may help to put a stop to these crimes. But if the employees, who are the main force behind the bank's operations, remain ignorant of these regulations, it cannot be expected that the amount of cyber crime will go down.

Although the main objective behind the study remained unfulfilled to a great extent, a completely different picture came in front of the researcher. The findings of this study put forward a very important aspect of the overall scenario of the internet banking regulations.

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## 10. LIMITATIONS

1. The major limitation of this study is that the bank employees were reluctant to disclose information. Even the information provided by them was to a certain extent, not at par with the real scenario.
2. Another limitation is that the study has been conducted at a small city in Assam. As such, the finding cannot be generalized. The picture may be completely different in case of bigger cities.

## 11. SCOPE FOR FURTHER RESEARCH

The main objective with which the study was undertaken has remained unfulfilled because of the ignorance on the part of the bank employees about the internet banking regulations. There is a scope for future researchers to take up a study with the same objective, in case the bank employees become more familiar with the internet banking regulations and when these regulations are, in the true sense, followed. Moreover, a study at a larger scale can also be taken up.

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