The Risks of Electronic Banking

Msc. Anisa Haxhosaj

Haxhi Zeka University - Kosova

Abstract: ***Banks are one of the most important institutions in an economy. The Banking Network System is a very complex network in a sense that ensures the flow of financial transactions and macroeconomic stability in the country. The development of electronic commerce and banking services through electronic banking business (introduction to the electronic capital money payment system) created conditions for the new application of a wide spectrum of banking products, for a quick and real approach, for all customers of Bank. Although these banking products are very important for today's time, they also have many risks that I have tried to identify so that the banking system can have succeed in its business avoiding negative effects.***

Keywords: Risk, Reputation, Banking

1. Introduction

The bank that offers segmented services in the financial markets, it is always ready to restructure the balance positions in a very short term, which for the financial market will always be current and very challenging. The banking sector still faces major challenges, but greater transparency will increase investor confidence and also encourage banks to manage better the country's risk.

Continuing problems in the banking industry have been among the main factors hindering the recovery. The key issue now is whether the banks have finally dealt their problems so the economy can start growing more strongly.

The rapid development of tools and operational possibilities for the provision of electronic banking services has had (and still has) an impact on the appearance of risks that threaten the banking business.

1) Types of Banking Business Risks

In accordance with the documents of the Basel Committee [1]on banking superauditing, can be noted the following types of risks in electronic banking, which are presented in the table:

Table 1: Types of Banking Business Risks

Types of Banking Business Risks
Operational risk
Reputational risk
Legal risk
The risk of international business
Other risks of (credit, market, interest, currency, political, legal, liquidity, solvency and bank capital risk.)

Each of the risks mentioned above has a direct impact on the application of the electronic system in banking business.

1.1 Operational risk

Operational risk is created on the basis of potential losses, due to deficiencies that are present in the integrity of the information system and the reliability and security of the system itself. In practice, this risk is usually called operational risk and is equated with "chance risk".

Operational risk can be presented in these forms:

• Risk of security and integrity of the bank's information system

The security risk is related to the control of the financial and accounting systems in the bank in order to make the electronic money transfer more efficient and to prevent misuse and forgery in the banking business. The minimization of the security risk will result in the lack of control and the possibility of introducing viruses into the bank's information system, and the final result would be the uncontrolled growth of this risk with a very negative consequence in the implementation of the bank's business policies.

• The risk of design, implementation and professional maintenance of the bank's information system

The risk of designing, implementing and maintaining the information system in the bank has a direct impact on the development of the electronic banking system and electronic money. The involvement of external experts in the development of banking (without sufficient knowledge of the banking business) may have long - term negative consequences in the implementation and development of the electronic banking business system.

• The risk of misuse of banking products and services by the bank's customers

The risk of misuse of banking products and services by the bank's customers is possible in cases where there is a lack of basic customer education regarding the importance of the electronic banking system. In these cases, personal information of bank customers (eg credit card number, etc.) is often unprotected during electronic banking transactions.

1.2 Reputational risk

This risk is related to the negative image of the banking business for the specific bank, which is formed by public opinion. The bank has a significant outflow of funds and customers, that means there is a decrease in monetary circulation and a decrease in the number of customers in general. This risk can be permanent. The deterioration of the

[1] Basel Commite on Banking Supervizion, Risk Management for Electronic mony Activites Basle, Mart 1998.

bank's image can occur as a result of poor communications in the interactive communication network between the bank and its customers, or when the majority or a relatively large and significant number of customers are not satisfied with the bank's policies, especially certain benefits that come as a result of the customer's long - term loyalty to the bank. Reputational risk can also be threatened as a result of misuse and fraud by third parties, causing doubts and insecurity in the bank's business security system (hackers entering the bank's website and spreading false information about the bank). This risk does not mean that it concerns only one bank, but it is possible that it involves all banks, or the entire banking system of a country.

1.3 Legal risk

It was born as a result of non - compliance with legal norms. It can also be threatened in case of not correctly defining the legal norms in electronic banking transactions, especially the cases of money laundering, which anywhere in the world are actions sanctioned by law, are a separate problem. To prevent this phenomenon ("money laundering"), it is a legal obligation of every country in the world to create a legal basis for the prevention and sanctioning of this action, as ugly as it is harmful, to reduce this phenomenon, it is necessary that in advance to build norms and mechanisms that maximally create the legal basis and the technical and technological conditions for the identification of such a purpose. There are countries in the world that do not take enough care to prevent these criminal actions, which are often transferred to other countries in the world. In order to protect customers, many banks have developed application programs, which identify indisputable data and evidence in the electronic banking circulation.

The electronic certificate is now a detector of eventual discoveries of criminal resources.

1.4. The risk of international business

This type of risk is based on technologies that do not recognize borders and geographical barriers. The increasing use of the electronic banking system in the international business of monetary payments only proves the possibility of the existence and threat of this risk. This risk can often be more potential if it is the business frequency and dispersivity of the bank or banks developed in macro - international market reports. Credit and legal risks are closely related to this risk (assessment of the credit capabilities of loan applicants and ways and approaches to prevent "money laundering").

1.5. Other risks

Other risks, which constitute or are part of this risk, are: electronic risks in allowing different forms of credit, currency changes (exchange rates), interest rate changes in stock exchanges, maintenance of liquidity and solvency as well as risks political in trust regions, where tectonic movements of a political nature are extremely frequent and not at all stable. Designating a relatively high number of banks and banking institutions for electronic business in global markets only further increases the international risk of banking business.

2. Risk Management Methodology

Risk means knowing and defining the risk management strategy. Identifying risks means determining the type and level of the bank's exposure to risk. Risk management strategy means defining tactics and tools for optimal risk management.
Techniques for risk management can be:

- Risk acceptance,
- Avoidance of risks,
- Protection from potential risk.

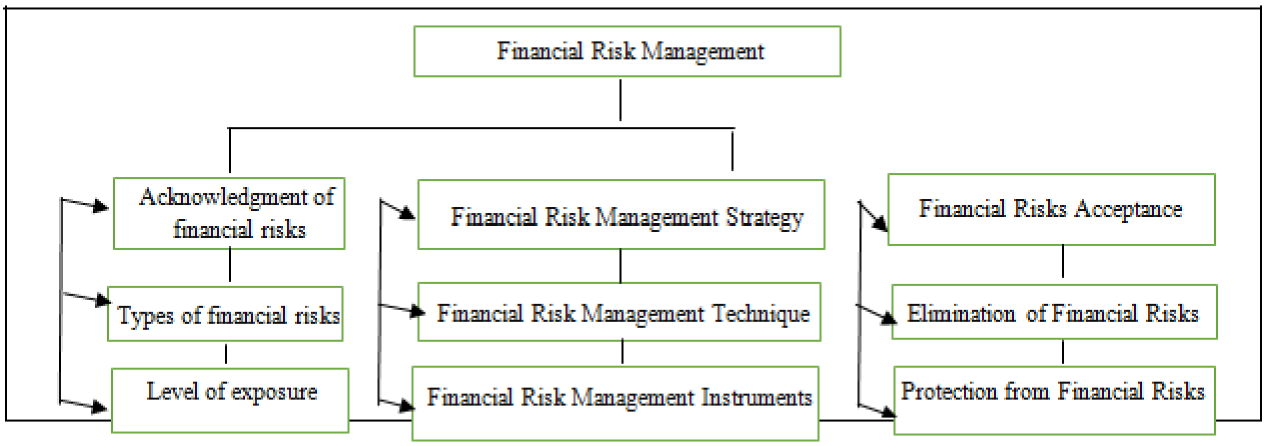

Table Number 2: Management methodology with financial risks in electronic banking

After the assessment of the risk, within the scope of possible tolerances, the bank management is obliged to take certain and adequate management measures to control the risk. The management team, making the control for the risks, is responsible for decision - making.

Protection from risks is based on the development and implementation of security mechanisms and measures in the communication process between the bank and other external financial systems. Security measures represent the combined and synergistic use of equipment and tools – hardware and software.

Paper ID: SR22817173507 DOI: 10.21275/SR22817173507

In practice, these safety measures are most often present:

- **Data encryption**
  Data encryption is a process of transforming data with encrypted content, the encrypted content is known to the recipient of the order.
- **Digital certificates**
  The digital certificate (CD) represents an electronic order, through which the existence of the electronic link between the signature and the identity of the signatory is verified.
- **"Protective walls"**
  The protective wall (firewall) represents the combination of the use of hardware and software, through which external access to the internal system is limited, such as the internet.
- **Antivirus control**
  Anti - virus programs have the task of preventing the introduction of computer viruses, which can cause serious damage to the data user by erasing or destroying all the data contained in the magnetic carriers within the computer.
- **Using the PIN number**
  It is of particular importance to keep the PIN number secret, in such a way that hackers do not have the opportunity to break into the electronic computing systems of banks and other financial institutions.

Managing the risks of electronic financial transactions means the permanent professional education of bank employees, but also of their customers, on how to use and exploit electronic banking tools and products.

2. Conclusion

The banking industry is very important to determine the economic development of a country, therefore must be care in the way of managing the risks that threaten the banking system. The recognition and management of these risks is very important for all economists because not knowing them can damage every day more the economy, impoverishing the economy of a country, which will affect the citizens of the respective country.

References

[1] Furst, Karen, Ëilliam Ë. Lang, and Daniel E. Nolle. "Special Studies on Technology and Banking. " Office of the Comptroller of the Currency Quarterly Journal 19, no.2 (2000): 29–48.
[2] ″Banking System Kosovo″ Economic Initiative for Kosovo. Retrieved 24 May 2013
[3] Ëenninger, John. "The Emerging Role of Banks in E - Commerce. " *Federal Reserve Bank of Neë York Current Issues* 6, no.3 (2000): 1–6.
[4] Madura, J. Internatijonal Financial Menagement 6 th Edition, South –Ëestern College Publishin 2000, Part III, Risk Management, Faqe 241
[5] Basel Commite on Banking Supervizion, Risk Management for Electronic mony Activites Basle, Mart 1998.
[6] http: //ec. europa. eu/enlargement/archives/seerecon/kosovo/documents/wb_econ_report/wb - kosovo - econreport - vol2 - ch3. htm
[7] http: //business. time. com/2013/02/05/has - the - banking - industry - really - been - fixed/
[8] http: //www.sciencedirect. com/scienece/article/article/pii/S0275531906000304
[9] http: //www.economis. com/