

A STUDY ON PROBLEMS BEING POSED BY THE ELECTRONIC BANKING- DIGITIZATION

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ABSTRACT

Besides equipping us with immense facilities and comforts, Electronic Banking-Digitization has posed many problems before us.

- *Problems before Accounting tasks e.g. natural problems, negligent man-made problems, fraudulent man-made problems.*
- *Problem before Auditing tasks e.g. computer illiteracy, machine readability, audit trails, CAAT's, Proper guideline, Fraud, Audit risks, I.T.expert.*
- *Problems before banks e.g. window dressing, credit card Frauds, Debit card Frauds, ATM, On line banking, Mobile Phone Banking.*
- *Impact of Electronic Era upon the Bank Audit e.g. sophistication, I.T. expert, Physical Verification.*

KEYWORDS: *Programming Loopholes, Migration Problems, Cyber Threat, System Crash, Technological Sphere, Maintenance Cost, ATM, Mobile Banking, Credit Card and Debit Card.*

Introduction

Each and every coin has two aspects – the one is the head and the other is the tail. Likewise every comfort comes with the discomfort associated with it. The E-era has served us various facilities and comforts with its sophisticated technology and each such facility or comfort has emerged with some kind of discomfort or even danger and hazards. A name of domestic gas i.e. LPG (Liquefied Petroleum Gas) is enough to illustrate. LPG has proved itself to be very helpful in daily household chaos. It is eco-friendly in a way that it saves trees from being cut; and it also keeps eyes of the housewives safe from poisonous gases generated while the burning of woods. But LPG is highly inflammable and is stored in metallic cylinders and these cylinders are a kind of high capacity bombs in every kitchen. Even a small negligence could lead to a leakage in gas and this leakage could lead to explosion hazardous to life and to assets. One other such illustration to quote is the illustration of electricity. From the above discussion, it is confirmed that e-era has come up with discomforts and frustrations with it. Besides equipping us with immense facilities and comforts, e-era has posed many problems before us.

Problems before Accounting Task

Accounting also could not keep itself away from problems due to the advent of the E-era. These problems could be categorized into natural problems and man-made or artificial problems. Man-made or artificial problems can be further bifurcated into negligent and fraudulent problems.

- **Natural Problems:** These problems are naturally generated e.g. Resistance, Lack of Skilled Employees, System Crash, Technological Sphere, Maintenance Cost.
- **Negligent Man-made Problems:** These problems are not naturally generated by the technology itself but these have to be faced by the business organizations due to negligence or carelessness of the persons associated with the generation and implementation of the technological environment.

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- Programming Bugs e.g. Disorder in organization activity, Hampers decision making process of banking systems, Financial Loss, Hampers Goodwill of the bank.
- Data Loss e.g. Hardware Failure, Faulty Software, negligent behaviour of the employees, Intentional Removals of data, Information Disclosure.
- **Fraudulent Man-made Problems:** These problems are generated to the organization due to fraudulent activities of humans be they are outsiders or they are insiders to the organization. Errors are not so dangerous and they can be made good when detected but it is not so with the frauds. The point of time when the fraud is detected, it has become too late. The purpose of fraud in the e-era is to put the fraud victim in cumbersome situation and often involves a considerable financial loss to the fraud victim. Every fraud is perpetrated with new and unique technique so that it could not be detected easily. The modern technology has provided new dimensions to the fraudsters to commit seamless frauds.
 - Manipulation
 - Information Theft
 - System Failure
 - Programming Loopholes
 - Migration Problems
 - Cyber Threat e.g. virus, worm, Trojan horse, spyware, malware, hacking

Problems before Auditing Task

We have seen that e-era has posed many problems before the accounting task; some problems are small but others are serious. Auditing task is closely associated with the accounting task. It is unimaginable to think that it would not put any impact upon the auditing task. The task of auditing has also been surrounded with multi-faceted problems.

- Computer Illiteracy
- Machine Readability
- Audit Trails
- Frauds
- Audit Risk
- IT Expert

Problems before Banks

Information technology has left no stone unturned with its impact. It has also proved to be boon to the banks in expansion in their banking business. But they have not remained untouched from the problems mentioned hereinabove. These problems have affected their normal day-to-day operations adversely. Besides these problems, many bank specific problems have emerged.

- **Window Dressing:** Computers have made the window dressing task of the banks and their branches quite easy. It is a tool adopted by the bank management to exaggerate the actual financial position by classifying some advances which are actually of sub-standard or doubtful category, into standard category through intentionally invoking some yearend transactions. Since the amount involved might be material for the auditing purposes, this practice increases the audit risk and adversely affects the true and fair status of the affairs of the banks. While the balance sheet provides misleading information relating to the financial position of the bank by wrong classification of assets on the one hand, the profit and loss account displays the exaggerated profits by making wrong provision for bad and doubtful debts upon the sub-standard assets on the other.
- **Credit Card Frauds:** The problem which has troubled most to the bank as well as to its customers is the credit card fraud. Through credit cards, financial transactions are accomplished by mere divulging the credit card numbers or by mere swiping the card into the machines located at the shopping malls. Though this feature offers a great financial freedom, the card holder always remains in scary mindset of potential unauthorized transactions leading him/her to financial trouble. Credit card frauds are committed either through identity theft or through credit card cloning. While credit card number is embossed or engraved upon the face of the card, vital information is stored in a magnetic strip at the back of the card. In the card cloning process, the

information recorded into the original card is copied to another dummy card. And this dummy card starts behaving like original card. The transactions made through the dummy card by authorized persons undoubtedly leads to financial loss to the original card holder. Credit cards bear extremely high rate and extremely high penalty imposable upon mere a subtle. Default by the credit card holder. These charges are prejudicial to the interests of the card holder so, at times, these charges become unrecoverable even from a card holder of a very good track record. For this reason also, the true and fair position of the advances in the form of credit card is always at stake.

- **Debit Card Fraud:** By looking at the physical appearance, a debit card seems to be similar to a credit card. But the main difference in both of them is that while credit card is a representative of a loan account meaning that payments made through the credit card is taken to be a loan granted to the card holder and interest is chargeable upon the sum, a debit card is representative of a savings bank deposit account or current deposit account meaning that the payment made through the debit card is deducted from card holder's own fund as deposits in his/her saving bank account or the current account as such no interest is chargeable upon the sum. Though a debit card is also subject to fraud just as a credit card is, the fraud cases are considerably low due to the fact that payment transactions are not possible by mere divulgence of the debit card numbers. For the successful commitment of the fraud, the divulgence of the PIN (Personal Identification Number) is also necessary with the divulgence of the debit card number and sometimes some other information like card issue month and year is also required for successful completion of a financial transaction.
- **ATM:** ATMs have also become a source of great problems to the bank as well as to the customers who are availing the ATM facility. The problems commonly felt by the customers are – 1) Non-availability of sufficient ATM counters in the city where the customer resides or in the city where the customer generally travels; 2) Even if the machine is found at a place by chance, either the machine is broken down or sufficient cash is not stuffed into it to make cash withdrawal possible; 3) Card getting stuck to the machine or swallowed by the machine, the customer has to go around to get the card back and many times, he/she card issued with bearing charges for new issue of the same; 4) While making a withdrawal from the machine, the amount is debited into the account of the customer as evident from the transaction slip printed by the machine but no money comes out of the machine, in this case also, the customer has to go around for getting his/her credit back; 5) On completion of the transaction of withdrawal, the money comes half way out only and then gets stuck in its jaws leaving the customer in dilemma and 6) And even in some cases, money comes out of the machine in sufficient amount and the customers account gets debited according to the receipt printed by the machine but when the customer reaches to the bank and gets his/her passbook entered for updation of the transactions, the withdrawal made by him/her is not present in such record, and it is interesting to note that even after going around from branch to branch by the customer, no officer or employee of the bank is ready to accept the fact that the withdrawal has been made by the customer even after showing the transaction slip printed by the machine and his/her account not gets debited with the sum of withdrawal.
- **Online Banking:** Sometimes ago, credit card fraud was top in the hit list of the cyber criminals but currently it is shifting to the online banking or the internet banking. If a user has availed the viewing right only, cyber criminals are not in a position to give him/her any financial loss but even in this case, they can put into trouble either by hacking the account, by committing identity theft or by carrying a spy-view upon his/her financial activities. And if the user has also availed the transaction right upon his/her bank account, the cyber criminals can also give him/her financial trouble through unauthorized fund transfer in addition to the problems mentioned in case of viewing right only. Even if no fraud is committed upon the online banking account of a customer, the online banking account becomes problematic due to technological reasons.
- **Mobile Phone Banking:** Mobile phone banking is under the same kind of cyber threat as is the case with the online banking. Data transfer through mobile is relatively less secured but the cases of cyber threat through mobile phone banking are only a few because mobile banking is currently in its developmental phase only. Confidential information can be stolen by the cyber criminal through mobile cloning. In mobile cloning process, software of the original mobile is

copied to another mobile in such a way that the duplicate mobile becomes the clone of the original mobile. From this point on, any call made from or received upon the original mobile phone can be listened to through the duplicate mobilephone. If the user performs any banking transaction through his/her mobile phone, the details regarding the user name & password used as well as the transaction details will be leaked to the cloned mobile phone.

- **Mobile Banking:** While customers of the bank are in a beneficial stage, the banks are under the threat of robbery in the case of conduction of bank branch in a bus. The vehicle can be robbed in a lonely place.
- **Other Problems:** The more hi-tech technology is adopted by banks, the less there becomes the need of employees in them. By taking the futuristic view, banks are not employing new employees in sufficient number. Older employees are not techno-friendly and most of the activities are performed by a few young chaps. This situation not only adds to the problem of unemployment but also adds to the problems to the customers by way of insufficient services. The customer has to stand in queue for hours even for a little work; his/her this work gets completed in two or three and even more of such visits. The huge gatherings in the bank premises give golden opportunity to pocket pickers and other fraudsters. Also, computers with hi-tech printers have found the way to homes. Any unsocial person can counterfeit bank notes as currency. In the huge gathering, it is common for the bank employee to make mistake by accepting such fake notes and this could lead to a huge loss to the bank as well as the entire economy. Also, no connectivity or a very low speed of the connectivity to the network or the internet greatly hampers at times the completion of a financial transaction by the bank or the customer on time.

Impact of E-era upon the Bank Audit

Keeping in view the above discussion, it is now clear that the factors which have impact upon the audit of other types of organizations in the computerized environment also do have impact upon the bank audit but the bank audit has become more critical and risky because banks are on the zenith of the hit list of almost all the fraudsters and criminals due to the fact that the banking business relates to money and money matters and money is the matter for which humans crave for.

- **Sophistication:** Banks use highly sophisticated and latest in class technology. The current knowledge of the technology to the bank auditors (Except some auditor who have completed ISA (Information Systems Audit) or some other course in the technology) is beyond the reach of the technology being used by the banks. So, seeking the services of the IT (Information Technology) experts in the bank audit task has become a routine task of the bank auditors.
- **IT Experts:** The availability of the experts having the requisite knowledge is limited to the large cities only and even there also, the number of such experts is limited. In the cities of the medium and small range, either the services of the experts are not available or if they are available anyhow, the cost of utilization of such services is beyond the affordability of the auditors.
- **Physical Verification:** Due to the use of the latest technology, banks are undertaking too many financial transactions. It has made the physical verification process so complicated regarding the assets involving such transactions that a huge potentiality of errors and frauds cannot be denied.
- **Cash:** The verification of the cash in the bank or the bank branch has become more complicated. Even if the whole of the cash is verified by the auditors, it is very hard to judge what amount among it is represented by the fake bank notes.
- **Hypothecated Stock:** The stock hypothecated by the customers for fulfilling their working capital requirement is also very hard to get verified by the auditors. The severity of the matter can be estimated by mere a single fact that the exact amount of stock of even a single verage sized customer is very hard to get calculated.
- **Mortgaged Property:** The sophistication in the technology has helped the fraudsters to prepare counterfeited lease deed and registry of immovable property. This enables them to raise loan from more than one bank or some other similar agency like HDFC Ltd. (Housing Development and Finance Corporation Limited) by mortgaging a single immovable property again and again. This practice weakens the financial strength of the bank as a loan granting agency because the potentiality of the realization of this kind of loan is very weak. But it is very hard for the auditors to identify the extent of such practice in the bank under audit and it is even harder to adjudge its overall impact upon the true and fair position of the Financial Statement.

- **Gold under Lien:** The use of technology has made easy for the fraudsters to locate the approved gold appraisers of the bank. The fraudsters succeed in obtaining the sanction of the loan against the lien of the specially treated inferior metal resembling to gold by colluding with the appraiser. This puts the auditor in the same situation as in the case of the loan against the forged lease deed and registry of the immovable property.

Significance of the Study

This paper discusses about the various problems being posed by the electronics banking like problems in accounting task, problems in auditing tasks, problems before banks and Impact of E-era upon the Bank Audit.

Review of Literature

Review of literature paves way for a clear understanding of the areas of research already undertaken and throws a light on the potential areas which are yet to be covered. The reviews of some of the important studies are presented below:

- **According to ICAI (The Institute of Chartered Accountants of India) (2012)** The matter becomes of a serious concern in the cases where accounting has been accomplished in the organization in the computerized environment running in the paperless mode. The situation becomes worse where online transactions and interdepartmental transactions occur in the organization under audit without even the move of a paper.
- **According to ICSI (The Institute of Company Secretary of India) (2013)** computer and many other devices have made a deep impact upon the mode of accounting. Though the rules governing the accounting methodology have remained the same.

Research Methodology

The prepared paper is a descriptive study in nature. The study has been carried out based on the collection of the relevant sources such as published books, articles, published in different journals and newspapers, periodicals, conference paper, working paper and websites etc.

Conclusion

No doubt, the technology has proved to be very beneficial in the saving of time, labour and money. It has also led to ease and comfort in the workings of the organization due to which there has been a very positive impact upon its efficiency and productivity. But the technology also has its own shortcomings. From the accounting point of view, some of the shortcomings are - Resistance of the employees towards the adoption of the new technology, data loss due to hardware and/or software failure, data and/or information theft. And from the auditing point of view, these are - computer illiteracy among the auditors, lack of the audit trails in the computerized accounting, lack of the audit tools which are vital for the conduction of the audit in the computerized environment.

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