Risk Management in Online Banking

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Following is a review of some of the risks that are inherent in online banking:

1- **Strategic risk**: Strategic risk is one of the current and prospective risks which affect earnings and capital arising from adverse business decisions mainly associated with Board and management decisions. Many senior managers do not fully understand the strategic and technical aspects of Internet banking. Encouraged by competitive pressures, banks may seek to introduce or expand Internet banking without an adequate cost-benefit analysis when the management doesn't plan for, manage and monitor the performance of technology related products, services, processes and delivery channels. Poor e-banking planning and investment decisions can increase a financial institution's strategic risk.

2- **Operational-Transactional risk:** Transactional risk is the current and prospective risk which is known also as security or IT risk usually affects earnings and capital arising from fraud, error, negligence and the inability to maintain expected service levels. A high level of transaction risk may exist with Internet banking products, because of the need to have sophisticated internal controls and constant availability. One of the key challenges encountered by banks in the Internet environment is how to predict and manage the volume of customers that the banks want to obtain. The structure and complexity of banking products, bank's processing environment, different types of services offered, the difficulty of understanding and implementing the new technologies increase the level of operational risk, especially when the institutions propose innovative services that are not yet standardized.

3- **Compliance risk**: E-banking is a new delivery channel where the laws and rules governing the electronic delivery of certain financial institution products or services may be ambiguous. Compliance risk is the risk that has an effect on earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations and ethical standards. Compliance risk may lead to diminished reputation, actual monetary losses and reduced business opportunities. Banks need to carefully understand and interpret existing laws as they apply Internet banking and guarantee stability with other channels such as branch banking. This risk is amplified when the transactions are made internationally. In case of cross-border transactions the compliance function becomes more complicated due to the lack of jurisdictional clarity. Conflicting laws, tax procedures and reporting requirements across different authorities add new risks. The need to keep customer data private and seek customers' approval before sharing the data also considered as compliance risk.

4- **Reputational risk**: Reputational risk affects on earnings and capital arising from negative public opinion, which can include specific actions that may cause negative public image of overall bank operations. A bank's reputation can be damaged by poorly executed Internet banking services such as limited availability, buggy software, hacked or modified institutional websites and other security problems. Customers may change their bank according to their experiences and move to the bank which provides the simplest but safest internet services. Customers should be well educated against the risks involved .

5- **Information security risk**: Information security risk is the risk that has negative effect on earnings and capital arising out of lax information security processes, thus exposing the institution to malicious hacker or insider attacks, viruses, denial-of-service attacks, data theft, data destruction and fraud. The most sensitive computer systems, such as those used for high value payments or those storing highly confidential information, tend to be the most comprehensively secured. However, while banks tend to have reasonable perimeter security, there is sometimes insufficient segregation between internal systems and poor internal security. The programmes and especially the virus and security systems must be upto-date all times.

6- **Credit risk**: A customer's failure to meet his financial obligations is called as credit risk. Internet banking enables customers to apply for credit from anywhere in the world. Banks will find it extremely difficult to verify the identity of the customer, if they intend to offer instant credit through the Internet. Verifying collateral and if the customer is in another country in case of conflict different jurisdiction procedures may cause difficulties. Different accounting standards, inflation accounting techniques, lower standards of transparency, not developed credit reporting bureaus and non existing credit histories , absence of bankruptcy laws, different currency rates may cause difficulties in international banking transaction in terms of credit evaluation .

7- **Interest rate risk**: Interest rate risk is the risk arising from fluctuations in interest rates. Differences between interest rates paid on deposits and gained from credits may cause enormous effects depending on banks' being assets or liability sensitive. An asset sensitive bank will be positively affected from rising interest rates and a liability sensitive bank will be negatively affected from rising interest rates. Several studies indicated that there were some obstacles to the application of electronic banking and could be summarized as follows:

8- - Security problems: problems related to network violations and the possibility for others to steal funds from depositors, as well as the possibility of wire fraud. –

9- Technical problems: Difficulties in obtaining advanced computer equipment, weak communication networks and electronic coverage, as well as lack of maintenance and upgrading centres. –

10- Problems related to poor technical knowledge of individuals: These problems are linked to poor electronic efficiency in handling devices and equipment, customers' fear and reluctance to deal with this method, as well as their lack of certainty in accessing the required banking services.

11- - Legislative and legal problems: These are associated with weak legal systems, and the lack of legislations that limit abuse of the network and preserve the rights to security and safety of customers.These risks occur in the event that laws, rules and controls established by the authorities are violated or may occur as a result of a lack of clear definition of legal rights and obligations arising from electronic banking transactions and a lack of associated disclosure requirements and these risks are also the result of failure to provide the required confidentiality of customers' transactions or the improper use of data and information, These risks are reinforced by the lack of banking legislation on contracts, electronic transactions and legal tools to regulate such contracts and transactions as financial fraud becomes more possible owing to the absence of effective principles and standards on which to verify and verify the identity of customers in the open-ended nature of the Internet

12- - ***Administrative and organizational problems****:* Associated with the weak engineering of the banking business and its adaptation
to modern work styles, as well as the resistance of bank employees to adopt the electronic method in marketing added to the scarcity of specialists in this type of banking the aforementioned banks.

13 - ***Financial problems****:* It refers to the weak financial allocations to cover the purchase of electronic devices and equipment, in addition to shortage in financial allocations to implement training and development programs for associates to facilitate the provision of the banking service