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Certificate in e-Commerce

CEC-04

E-payment System and M-commerce

Block – 02

Online Banking and Online Share Trading

UNIT-1 ONLINE BANKING

Learning Objectives

After reading this chapter, the students should be able to:

- Understand the meaning of online Banking and its advantages
- Discuss the different disadvantages of online banking
- Enumerate the online banking services
- Discuss the tips for safe banking over the internet

Structure

1.1 MEANING OF ONLINE BANKING

When the term “online banking” initially gained popularity in the late 1980s, the phrase referred to the use of a terminal, keyboard and television or computer monitor to access one’s bank account using a landline telephone. Now the online banking definition, or internet banking definition, includes any electronic payment system that allows customers of a financial institution to conduct financial transactions through the financial institution’s website. Today, online banking services include mobile internet banking technology, such as person-to-person payment smartphone apps and text banking. Online banking allows a user to execute financial transactions via the internet. Online banking is also known as "internet banking" or "web banking." An online bank offers customers just about every service traditionally available through a local branch, including deposits, which is done online or through the mail, and online bill payment.

Online banking enables bank customers to handle account management and perform account transactions directly with the bank through the internet. This is also known as internet banking. Online banking is defined as the automated delivery of new and traditional banking products and services directly to customers through electronic, interactive communication channels, online banking includes the systems that enable financial institution customers, individuals of businesses, to access accounts, transact business, or obtain information on financial products and services through a public or private network, including the Internet.

Customers access online banking services using an intelligent electronic device, such as a personal computer, personal digital assistant, automated teller machine, Touch tone telephone.
Internet plays vital role between banks and customers to receive and deliver information, this form of banking is described as Internet banking (Reserve Bank of India, 2001). The process in which internet and computer device are used as a medium to facilitate banking services is termed as internet banking. Internet

banking is a web-based service that enables the banks authorized customers to access their account information. It permits the customers to log on to the banks website with the help of bank‟s issued identification and personal identification number (PIN). The banking system verifies the user and provides access to the requested services, the range of products and service offered by each bank on the internet differs widely in their content. Banks have traditionally been in the forefront of harnessing technology to improve their products, services and efficiency. Banks are using electronic and telecommunication networks for delivering a wide range of value added products and services. The delivery channels include direct dial – up connections, private networks, public networks etc and the devices include Personal Computers. With the popularity of PCs, easy access to Internet and World Wide Web (WWW), Internet is increasingly used by banks as a channel for receiving instructions and delivering their products and services to their customers. Most of the banks offer internet banking as a value-added service.
Jun and Cai defined Internet banking as the use of Internet as a delivery channel for banking services which include opening a deposit account, transferring funds, electronic bill presentment and payment.

According to Bhattacherjee, Internet banking is an integrated system that provides their customers a flexible, convenient and inexpensive platform with integrated services including online bank balance checking and savings accounts, money market accounts, certificates of deposit, credit cards, home equity loans, home mortgage, insurance, investment services, portfolio management, and other related financial services.
According to Siu and Mou the internet (electronic) banking is prominent example of information technology in the service industry; it is convenient and time saving in comparison to traditional banking. In traditional retail banking, one has to visit branch to conduct banking activity like money transfer, to issue cheque book, DD etc. but with the use of internet in banking, user can conduct these activities from any part of the globe, it requires internet connection and computer only. Apart from these activities user can purchase/sell, pay bills etc. from any convenient place.

1.2 ORIGIN OF ONLINE BANKING IN INDIA

In India e-banking is of fairly recent origin. The traditional model for banking has been through branch banking. Only in the early 1990s there has been start of non-branch banking services. The good old manual systems on which Indian Banking depended upon for centuries seem to have no place today. The credit of launching internet banking in India goes to ICICI Bank. Citibank and HDFC Bank followed with internet banking services in 1999. Several initiatives have been taken by the Government of India as well as the Reserve Bank to facilitate the development of e-banking in India. The Government of India enacted the IT Act, 2000 with effect from October 17, 2000 which provided legal recognition to electronic transactions and other means of electronic commerce. The Reserve Bank is monitoring and reviewing the legal and other requirements of e-banking on a continuous basis to ensure that e-banking would develop on sound lines and e-banking related challenges would not pose a threat to financial stability. A high level Committee under chairmanship of Dr. K.C. Chakrabarty and members from IIT, IIM, IDRBT, Banks and the Reserve Bank prepared the „IT Vision Document- 2011-17‟, for the Reserve Bank and banks which provides an indicative road map for enhanced usage of IT in the banking sector.

To cope with the pressure of growing competition, Indian commercial banks have adopted several initiatives and e-banking is one of them. The competition has been especially tough for the public sector banks, as the newly established private sector and foreign banks are leaders in the adoption of e-banking.

1.3 TECHNOLOGY BEHIND ONLINE BANKING

Presently, the banks are using the internet network and use technology like Protocols; World Wide Web (www) in order to provide internet banking to their customer. The data transmission protocol suite used for the Internet is known as the Transmission Control Protocol/Internet Protocol (TCP/IP).

Process of internet banking sending and receiving information between customer and bank has been explained in the following figure.

Information Exchange Information Exchange

Bank Customer $\Longleftrightarrow$ Internet $\Longleftrightarrow$ Bank

The Internet is primarily a network of networks. The networks in a particular geographical area are connected into a large regional network. The regional networks are connected via a high speed 'back bone'. The data sent from one region to another is first transmitted to a Network Access Point (NAP) and are then routed over the backbone. Each computer connected to the Internet is given a unique IP address (such as 10.81.203.148) and a hierarchical domain name(such as www. dauniv.ac.in).The Internet can be accessed using various application-level protocols such as FTP (File Transfer Protocol), Telnet (Remote Terminal Control Protocol), Simple Mail Transport Protocol (SMTP), Hypertext Transfer Protocol (HTTP). These protocols run on top of TCP/IP. The most innovative part of the Internet is the World Wide Web (WWW). The web uses hyperlinks, which allow users to move from any place on the web to any other place. The web consists of web pages, which are multimedia pages composed of text, graphics, sound and video. The web pages are made using Hypertext Markup Language (HTML). The web works on a client-server model in which the client software, known as the browser, runs on the local machine and the server software, called the web server, runs on a possibly remote machine. Some of the popular browsers are Microsoft Internet Explorer and Netscape Navigator.

1.4 ADVANTAGES OF ONLINE BANKING

Online banks revolutionized brick-and-mortar banking by making it greener, quicker and more convenient. Now, online banking is going mobile to offer consumers even more perks, such as heightened security, easier access and a plethora of helpful applications for smartphones.

Advantages of online banking include:

(i) **Better rates:** Because online-only banks lack the overhead costs associated with brick-and-mortar banks, online banks are able to pass on the savings to customers in the form of better interest rates.

(ii) **Ease of use:** Customers can quickly and easily monitor balances, check on spending and be alerted to low balances.

(iii) **Services and tools:** Resources such as online bill payment and online tax forms, loan calculators, budgeting tools and even investment analysis tools are often available — and usually free of charge.

(iv) **Mobility:** Access to a bank account and up-to-date balance information are available to customers any time they have a device with an internet connection. Customers are able to access their accounts seamlessly from computers, tablets and smartphones.

(v) **Electronic transfers:** Transferring money between accounts and banks is as easy as signing into an online banking account and clicking through a few steps.

(vi) **Environmental friendliness:** Banking online can go hand in hand with paperless notifications. Customers are given the choice to opt out of paper statements and mail. Instead, they can be reached via the message center within their online bank account, by email or even by text message.

(vii) **Security alerts:** With 24/7 access to their online banking accounts and balance information, customers can be alerted to unusual activity and security breaches almost immediately.

1.5 DISADVANTAGES OF ONLINE BANKING

Although the advantages of online banking are significant, some critical disadvantages of this modern means of banking do exist:

(i) **Diminished relationships:** Because banking is conducted mostly and sometimes completely online, there's a lack of face-to-face interaction and little opportunity to develop relationships between customers and bank representatives.

(ii) **Lack of comprehensive or special services:** Brick-and-mortar banks are able to provide services such as notarizing financial documents, which can't be done by an online bank.

(iii) **Transaction issues:** For clients who frequently deposit cash, online-only banks might not be as useful. Additionally, ATMs for some online-only banks can be hard to find.

(iv) **Security issues:** As with any institution in possession of secure data and personal information, online banks are vulnerable to security risks. Hacking, phishing and viruses are some of the associated risks that banks try to provide protection against.

1.6 COMPARISON BETWEEN BRICK-MORTAR BANKING WITH ONLINE BANKING

The differences between traditional banking and Internet banking on the basis of presence, time, accessibility, security, finance control, expensive, cost, customer service and contact are differentiated as follows.

Basis of Difference	Traditional Banking	Online Banking
Presence	Banks exist physically for serving the customers,	Internet banks do not have physical presence as services are provided online.
Time	It consumes a lot of time as customers have to visit banks to carry out bank transactions like — checking bank balances, transferring money from one account to another.	It does not consume time as customers do not have to visit banks to check bank balances or to transfer money from one account to another. Customers can access their account readily from anywhere with a computer and internet access.
Accessibility	People have to visit banks only during the working	Online banking is available at any time and it provides 24

	hours.	hours access.
Security	Traditional banking does not encounter e-security threats.	Online banking is the tempting target for hackers. Security is one of the problems faced by customers in accessing accounts throu h internet.
Finance Control	Customers who often travel abroad cannot pay close attention and control of their finances.	Customers who often travel abroad can have greater control over their finances.
Expensive	Customers have to spend money for visiting banks.	Customers do not have to spend money for visiting banks. They can avoid bank charges that may be charged for certain teller transactions or when they pay bills electronically — directly from their account to the merchant. It helps to save money on postal charges.
Cost	The cost incurred by traditional banks includes a lot of operating and fixed costs.	Such costs are eliminated as the banks do not have physical presence.
Customer Service	ln traditional banks, the employees and clerical staff of the bank can attend only few customers at a time.	In online banking, the customers do not have to stand in queues to carry out certain bank transactions.
Contact	Customers can have face	Customers can have only

	to face contact in traditional banking.	electronic contacts.

1.7 ONLINE BANKING SERVICES

Online banking account is easy to open and operate. The online services offered might differ from bank to bank, and from country to country. To know about the various services, always go through the welcome kit that you get at the time of opening the account. Customer also gets the password to access his online account, which he is supposed to keep with great care for security reasons.

The common online services offered by banks are:

• Transactional activities like funds transfer, bill pay, loan applications and transactions.

• Non-transactional activities like request for cheque book, stop payment, online statements, updating your contact information.

The Different online Banking services are:

(i) Managing Accounts Online

When a customer signs up for online banking and designates which account he/she wishes to access online, then he/she will be issued a user ID and temporary password via regular mail, e-mail or both, with instructions on how to use them to assess the secure online banking portion of one's bank's site where one's account information is available 24/7. Many banks require one to change one's password during one's initial visit for added security. These site "keys" are the only way to access one's account online, so keep them in a safe place.

Once inside private site, one will have access to all the accounts that one has registered for online banking. One can easily view current balances, recent deposits and payments, complete account history and transact on financial securities.

(ii) Transfer of Money

Electronic funds transfer (EFT) is the electronic transfer of money from one bank account to another, either within a single financial institution or across multiple institutions, via computer-based systems, without the direct intervention of bank staff. Customer can transfer any amount from one account to another of the same or any another bank. Customers can send money anywhere in India. Once the customer login to his account, he needs to mention the payee's account number, his bank and the branch. The transfer will take place in a day or so, whereas in a traditional method, it takes about three working days. A customer can now avail a bouquet of funds transfer services through Internet banking

(a) Transfer funds within your own accounts
(b) Transfer funds to third party account held in the same bank
(c) Make an Inter bank funds transfer to any account held in any bank
(d) Pay any VISA credit card bill
(e) Transfer funds to religious and Charitable institutions
(f) Record standing instructions to transfer a fixed amount at a scheduled frequency for a period not exceeding one year
(g) Transfer funds to NRE PIS accounts to facilitate online trading

(iii) RTGS

Real Time Gross Settlement as the name suggests is a real time funds transfer system which facilitates you to transfer funds from one bank to another in real time or on a gross basis. The transaction isn't put on a waiting list and cleared out instantly. RTGS payment gateway, maintained by the Reserve Bank of India makes transactions between banks electronically. The transferred amount is instantly deducted from the account of one banks and credited to the other bank's account.Users such as individuals, companies or firms can transfer large sums using the RTGS system. The minimum value that can be transferred using RTGS is Rs. 2 Lakhs and above. However there is no upper cap on the amount that can be transacted. The remitting customer needs to add the beneficiary and his bank account details prior to transacting funds via RTGS. A beneficiary can be registered through your internet banking portal. The details required while transferring funds would be the beneficiary's name; his/her account number, receiver's bank address and the IFSC code of the respective bank. On successful transfer the Reserve Bank of India acknowledges the receiver bank and based on this the both the remitting bank as well as the receiving bank may/ may not notify the customers.

(iv) NEFT

The National Electronic Funds Transfer is a nation-wide money transfer system which allows customers with the facility to electronically transfer funds from their respective bank accounts to any other account of the same bank or of any other bank network. Not just individuals but also firms and corporate organizations may use the NEFT system to transfer funds to and fro. Funds transfer through NEFT requires a transferring bank and a destination bank. With the RBI organizing the records of all the bank branches at a centralized database, almost all the banks are enabled to carry out an NEFT transaction. Any sum of money can be transferred using the NEFT system with a maximum cap of Rs. 10, 00, 000.

Example- Payment process of RTGS and NEFT in SBI

1. Log on to www.onlinesbi.com
2. In Profile tab and Go to Manage Beneficiary link.
3. Select Inter Bank Payee from the options provided.
4. Select 'Add' option and provide the Beneficiary Name, Beneficiary Account Number, Address and Inter Bank Transfer Limit in the relevant fields.
5. Enter the IFSC code of the beneficiary bank branch by either:
6. Selecting the Location option and then the Beneficiary Bank, State and Branch form the drop down menus provided.
7. Click the 'accept Terms of Service (Terms & Conditions)' button followed by 'confirm'.
8. A high security password is sent to the mobile number as an additional security measure. Enter this password to authorize the beneficiary.
9. The beneficiary added is activated in a maximum of 16 hrs. time. Once activated you can transfer funds to the beneficiary.

10. To remit funds to the Inter Bank Payee through RTGS / NEFT select the 'Inter Bank Transfer' link in the 'Payments/Transfers' tab.
11. Select the Transaction Type - RTGS or NEFT.
12. The list of beneficiary accounts added is displayed.
13. Enter the Amount and select the beneficiary to be credited from the list.
14. Click on 'accept Terms of Service (Terms & Conditions)' and confirm.

The process of online method will be more or less same and may vary depending on the bank.

Difference Between NEFT and RTGS

1. The basic difference between them are settlement timings. RTGS is based on the gross settlement where the transaction is settled on an instruction by instruction basis. NEFT is an electronic fund transfer system that operates on a Deferred Net Settlement (DNS) basis which settles transactions in batches.

2. As per the Reserve Bank of India for RTGS the minimum amount should be above Rs 2 lakh and NEFT has no limit either minimum or maximum – on the amount of funds that could be transferred using NEFT. 3. RTGS is done on continuous basis whereas NEFT operates in hourly batches - there are eleven settlements from 9 am to 7 pm on week days (Monday through Friday) and five settlements from 9 am to 1 pm on Saturdays.

Charges applicable for the transaction

(a) NEFT

For transactions up to Rs 1 lakh – not exceeding Rs 5 (+ Service Tax)

For transactions above Rs 1 lakh and up to Rs 2 lakhs – not exceeding Rs 15 (+ Service Tax)

For transactions above Rs 2 lakhs – not exceeding Rs 25 (+ Service Tax)

(b) RTGS

For transactions between Rs 2 lakh to Rs 5 lakh - not exceeding Rs. 30 per transaction.

For transactions above Rs 5 lakh - not exceeding Rs. 55 per transaction.

(v) Account Aggregation

Account aggregation is a service that gathers information from many websites, presents that information to the customer in a consolidated format, and, in some cases, may allow the customer to initiate activity on the aggregated accounts. The information gathered or aggregated can range from publicly available information to personal account information (e.g., credit card, brokerage, and banking data). Aggregation services can improve customer convenience by avoiding multiple log-ins and providing access to tools that help customers analyze and manage their various account portfolios. Some aggregators use the customer-provided user IDs and passwords to sign in as the customer. Once the customer's account is accessed, the aggregator copies the personal account information from the website for representation on the aggregator's site (i.e., "screen scraping"). Other aggregators use direct data-feed arrangements with website operators or other firms to obtain the customer's information. Generally, direct data feeds are thought to provide greater legal protection to the aggregator than does screen scraping.

(vi) Paying Bills online

Online bill pay is defined as an electronic payment service that allows you to set up a secure online account to make one-time or recurring bill payments. This can be a convenient way to pay bills quickly and on time. The source of funds for the payments is usually a checking account, but some bill pay services also work with credit cards. All bills and transactions are accessed on the bill pay website. Each bank has tie-ups with various utility companies, service providers and insurance companies, across the country. Customer can facilitate payment of electricity and telephone bills, mobile phone, credit card and insurance premium bills. To pay bills, all customers need to do is complete a simple one-time registration for each biller. Customer can also set up standing instructions online to pay your recurring bills, automatically. One-time standing instruction will ensure that you don’t miss out on your bill payments due to lack of time. Most interestingly, the bank does not charge customers for online bill payment.

Bill payment services permit customers to electronically instruct their financial institution to transfer funds to a business's account at some future specified date. Customers can make payments on a one-time or recurring basis, with fees typically assessed as a "per item" or monthly charge. In response to the customer's electronic payment instructions, the financial institution (or its bill payment provider) generates an electronic transaction - usually an automated clearinghouse (ACH) credit - or mails a paper check to the business on the customer's behalf. To allow for the possibility of a paper-based transfer, financial institutions typically advise customers to make payments effective 3-7 days before the bill's due date.

(vii) Scheduling Payments

If the customer wants to pay a bill on a particular date (today onwards till due date of bill), he can do so by scheduling the bill. His account will be debited and the bill will be paid on that particular date by the bank.

(viii) Electronic Authentication

Verifying the identities of customers and authorizing e-banking activities are integral parts of e-banking financial services. Since traditional paper-based and in-person identity authentication methods reduce the speed and efficiency of electronic transactions, financial institutions have adopted alternative authentication methods, including: Passwords and personal identification numbers (PINs), Digital certificates using a public key infrastructure (PKI), Microchip-based devices such as smart cards or other types of tokens, Database comparisons (e.g., fraud-screening applications), and Biometric identifiers.

The authentication methods listed above vary in the level of security and reliability they provide and in the cost and complexity of their underlying infrastructures. As such, the choice of which technique(s) to use should be commensurate with the risks in the products and services for which they control access.

1.8 INITIATIVES TAKEN BY THE GOVERNMENT OF INDIA FOR DEVELOPING THE INTERNET BANKING

For growth and development and to promote e-banking in India the Indian government and RBI have been taken several initiatives.

(i) The Government of India enacted the IT Act, 2000 with effect from October 17, 2000 which provided legal recognition to electronic transactions and other means of electronic commerce.

(ii) The Reserve Bank monitors and reviews the legal requirements of e-banking on a continuous basis to ensure that challenges related to e-banking may not pose any threat to financial stability of the nation.

(iii) Dr. K.C. Chakrabarty Committee including members from IIM, IDRBT, IIT and Reserve Bank prepared the IT Vision Document- 2011-17, which provides an indicative road map i.e. guidelines to enhance the usage of IT in the banking sector.

(iv) The Reserve Bank is striving to make the payment systems more secure and efficient. It has advised banks and other stakeholders to strengthen the security aspects in internet banking by adopting certain security measures in a timely manner. RBI believes that the growing popularity of these alternate channels of payments (such as: Internet Banking, Mobile Banking, ATM etc.) brings an additional responsibility on banks to ensure safe and secure transactions through these channels.

(v) National Payments Corporation of India (NPCI) was permitted by the RBI to enhance the number of mobile banking services and widen the IMPS (Immediate Payment Service) channels like ATMs, internet, mobile etc. Along with this, NPCI is also working to bring more mobile network operators which can provide mobile banking services through a common platform. .

(vi) On the recommendations of the Damodaran Committee, the guidelines were induced by RBI that provide internet banking as totally secured and protected, zero-liability against loss for any customer induced transaction & multi-lateral arrangements among banks to deal with internet banking frauds. To deal with online banking frauds, customer can approach with their complaints to Banking Ombudsman. Under this Banking Ombudsman Scheme 2006, a customer can file their complaint against any deficiencies in banking service including internet banking, credit cards & ATM.

(vii) The Basel Committee on Banking Supervision's (2001) has defined risk management principles for electronic banking. They primarily focus on how to extend, adapt, and tailor the existing risk-management framework to the electronic banking setting.

1.9 THE FUTURE OF ONLINE BANKING

Despite the slow adoption rate in the early part of the history of internet banking, online banking has proven it's here to stay. Features have greatly evolved from the first days of internet banking history — from the need to use a landline to access account balances in the 1980s to having the ability to transfer funds, pay bills and deposit checks with just the click of a mouse or on a mobile device today. As technology continues to advance, banking online will likely become even easier and more ingrained in the average consumer's lifestyle.

With the financial technology companies, e-commerce names, big data firms, and cloud based software and service, the digital element is truly revolutionizing things, quite quickly and effectively. And it becomes even more relevant to take a moment to contemplate where the banking sector figures in the midst of all these changes. According to a report by the Boston Consulting Group in collaboration with FICCI and the Indian Banks' Association (IBA), India has around 470 million banking customers. Among this demographic, 60 million of them, amounting to 13% of the total users, use online banking. And within this category, 10% prefer the hybrid model of regular online and online banking. About 1% of users primarily prefer the online channels for all their banking needs. In comparison, online banking is the primary channel of interaction for around 20% of customers in economies like the UK and the US.

Most importantly, banks have been able to ensure that all these transactions are safe and secure. Banking in India has rapidly innovated to keep up with the times.

SWOT Analysis of Online Banking

1.Strength	**2. Weakness**
¬ Aggression towards development of the existing standards of banks ¬Strong regulatory impact by central bank to all the banks ¬Presence of intellectual capital to face the change in implementation with good quality ¬Fully computerized and techno savvy ¬A person can access his account from anywhere he is ¬A person can do banking transactions like funds transfer to any account, book ticket, bill pay at any time of the day.	¬High bank service charges. All the bank charges highly to the customers for the services provided through internet banking ¬Poor technology infrastructure ¬Ineffective risk measures ¬Easy Access of internet banking account by wrong people through email-ids ¬When the server is down the whole process is handicapped
3.Opportunities	**4. Threats**
¬Increasing risk management expertise ¬Advancement of technologies, strong asset base would help in bigger growth ¬Safety of using internet banking is robust, so more internet banking	¬Banks provides all services through electronic computerized machines and this creates problems to the less educated people ¬Inability to meet the additional capital requirements ¬Huge investment in technologies

users in future ¬The international scope of internet banking provides new growth perspectives and internet business is a catalyst for new technologies and new business processes.	¬Internet banking will be replaced by mobile bank

1.10 TIPS FOR SAFE BANKING OVER THE INTERNET

Online banking is nice and convenient. But it does come with certain risks. Online accounts are also a point of vulnerability. Follow the tips mentioned below, one can minimize the risks to finances and bank safely online:

1. Choose an account with two factor authentication

Try to get a bank account that offers some form of two factor authentication for online banking. These days many, but not all, banks offer a small device that can be used to generate a unique code each time a customer logs in. This code is only valid for a very short period of time and is required in addition to login credentials in order to gain access to online account.

2. Create a strong password

If bank requires a user-generated password in order to access online accounts make sure choose one that is strong. The best way to achieve this is by making it long and a mix of upper and lower case letters, numbers, and special characters. Always avoid using any common words or phrases and never create a password that contains name, initials, or date of birth and also change password every few months.

3. Secure computer and keep it up-to-date

Security software is essential these days, regardless of what customer uses computer for. As a minimum, make sure the PC should have a firewall turned on and are running antivirus software. This will ensure that customer is protected from Trojans, keyloggers and other forms of malware that could be used to gain access to financial data. The customer should also keep operating system and other software up-to-date to ensure that there are no security holes present.

4. Avoid clicking through emails

No financial institution worth their salt will send an email asking to provide any of login details. If a customer receives an email that appears to be from the bank that asks for such details then treat it with suspicion as it may well be a phishing attempt to trick into handing credentials over. Likewise, the customer should be aware of links in emails that appear to be from his bank – this is a trick often employed by the bad guys to get onto a website that looks like bank. When a customer logs in to his account, they will steal username and password and, ultimately, customer's cash. It is always safer to access online bank account by typing the address into browser directly.

5. Access accounts from a secure location

It's always best practice to connect to bank using computers and networks that the customer knows and trusts. But if customer needs to access his bank online from remote locations he might want to set up a VPN (Virtual Private Network) so that he can establish an encrypted connection to his home or work network and access bank from there.

6 Always log out when transaction has been finished

It is good practice to always log out of online banking session when customer has finished his business. This will lessen the chances of falling prey to session hijacking and cross-site scripting exploits. The customer may also want to set up the extra precaution of private browsing on his computer or smart phone, and set browser to clear its cache at the end of each session.

7. Set up account notifications (if available)

Some banks offer a facility for customers to set up text or email notifications to alert them to certain activities on their account. For example, if a withdrawal matches or exceeds a specified amount or the account balance dips below a certain point then a message will be sent. Such alerts could give quick notice of suspicious activity on your account.

8. Monitor accounts regularly

It should go without saying that monitoring the bank statement each month is good practice as any unauthorized transactions will be sure to appear there. With online banking you have access 24/7 so take advantage of that and check your account on a regular basis.

1.11 LET'S SUM-UP

Online banking, also known as internet banking, e-banking or virtual banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the bank's website. The online banking system will typically connect to or be part of the core banking system operated by a bank and is in contrast to branch banking which was the traditional way customers accessed banking services.

To access a bank's online banking facility, a customer with internet access would need to register with the institution for the service, and set up a password and other credentials for customer verification. The credentials for online banking is normally not the same as for telephone or mobile banking. Banks now routinely allocate customers numbers, whether or not customers have indicated an intention to access their online banking facility. Customer numbers are normally not the same as account numbers, because a number of customer accounts can be linked to the one customer number. Technically, the customer number can be linked to any account with the financial institution that the customer controls, though the financial institution may limit the range of accounts that may be accessed to, say, cheque, savings, loan, credit card and similar accounts.

1.12 KEY TERMS

- Online Banking
- Virtual banking
- Electronic Fund Transfer
- Automated Clearing House

- Account Aggregation

1.13 SELF-ASSESSMENT QUESTIONS

(i) Write a short note on Online banking.

(ii) Write Down few tips for safe online banking.

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1.14 FURTHER READINGS

1. Adesh K Pandey, Concepts of E-Commerce, Katson Books, New Delhi
2. Rabindra Goel, E-commerce, New Age International Publishers, New Delhi

1.15 MODEL QUESTIONS

(i) What is online banking? How does it differ from traditional banking?

(ii) What services can be provided by the online banking?

UNIT-2 ONLINE SHARE TRADING

Learning Objectives

After reading this chapter, the students should be able to:

- Understand the meaning of share and share trading
- Discuss the difference between online and offline trading
- Enumerate the requisites for Online Share Trading
- Discuss the benefits of share trading
- Discuss the Procedure of share trading

Structure

2.1 MEANING OF SHARE AND TRADING OF SHARES

The share capital is the most important requirement of a business. It is divided into a ‘number of indivisible units of a fixed amount. These units are known as ‘shares’. According to Section 2 (46) of the Companies Act, 1956, a share is a share in the share capital of a company, and includes stock except where a distinction stock and shares is expressed or implied.

The person who is the owner of the shares is called ‘Shareholder’ and the return he gets on his investment is called ‘Dividend’.

Among all investment options available, capital market is considered the most challenging as well as most rewarding. Capital market is a market for securities (equity and debt), where companies (and government) raise long-term funds from the public investors, and where investors can subsequently trade among themselves in these securities.

There are two types of shares which a company may issue (1) Preference Shares (2) Equality Shares.

(1) Preferences Shares: Shares which enjoy the preferential rights as to dividend and repayment of capital in the event of winding up of the company over the equity shares are called preference shares. The holder of preference shares will get a fixed rate of dividend.

(2) Equity Shares: Equity shares will get dividend and repayment of capital after meeting the claims of preference shareholders. There will be no fixed rate of dividend to be paid to the equity shareholders and this rate may vary from year to year. This rate of dividend is determined by directors and in case of larger profits, it may even be more than the rate attached to preference shares. Such shareholders may go without any dividend if no profit is made.

2.1.1 Meaning of Share Trading

Shares trading is the buying and selling of company stock in the hope of making a profit. Only public limited companies (PLC) can issue shares to the general public.

They issue shares in order to raise capital. The first issue is known as Initial Public Offering (IPO).

Once people own shares by means of subscribing to IPO, they may need to have a liquidity i.e. selling these certificates of ownership in order to redeem their money. For this purpose secondary market has been created. These secondary markets are known as stock market or share markets. This is the place where shares are bought and sold freely which of course is governed by the universal law of supply and demand. The shares that are more in demand goes up in price and those that are low in demand goes down. The investors in the share/stock market make money by the principle of buying low and selling high.

2.1.2 Reason behind price change in shares

Basically, the rise and fall of share price, is due to the tug of war between buyers and sellers. Last Traded Price (LTP), is technically defined as the price at which, someone owning a share (Seller), decides to sell his shares, at an agreed price to a buyer. The Last Traded Price, fluctuates every second, when Markets are open, as millions of users across the world sit in front of their computers, placing buy or sell orders online. Indian Stock Markets are currently open between 9:15 AM and 3:30 PM IST. If on a particular day, there are more bids to buy shares, than shares that are in offer to be sold, then the share price rises.

The share price falls, when there are more sellers than buyers in a day. Traditionally, when internet was not popular, Stock Exchanges were carried out on a trading floor, by a method known as open outcry, where traders may enter "verbal" bids to buy and offers to sell simultaneously. It’s very similar to how auctions are conducted. The universal truth is that, if a company grows in value, so will the share price, over a period of time. A sprouting company grows in value: when they expand their business presence, when their profit grows year on year, when their debt reduces & becomes zero, when their cash & cash equivalents grow, when their asset value grows and so on. Such companies are worthy companies to be invested in. Buying demand of such companies, will always rise in the longer run, although, short term stock price fluctuations will be there, even for the best companies.

2.1.3 Purchasing Securities in the Primary Market

(i) ***Initial Public Offering (IPO)*** is when a hitherto unlisted company makes either a fresh issue of shares or some of its existing shareholders make an offer to sell of part of their existing shareholding for the first time to the public. This paves the way for the listing and trading of such shares. An IPO of fresh shares is typically made by a company when it needs money for growth-expansion or diversification or acquisitions or even to meet its increasing working capital requirements. In an IPO involving an offer for sale, the proceeds go to the selling shareholders.

(ii) ***Further Public Offering (FPO)*** is when an already listed company makes either a fresh issue of securities to the public or the existing promoters make an offer for sale to the public. An FPO, where fresh securities are issued, is typically made by a company when it needs money for growth-expansion or diversification or acquisitions or even to meet its increasing working capital requirements. An FPO is also the preferred route (over a rights issue) when the company wants to bring in new investors both institutional as well as retail. It may be pointed out that the FPO route is also being utilized extensively by the Government for the PSUs for the purpose of disinvestment of government's holdings.

2.1.4 Purchasing Securities in the Secondary Market

Secondary market refers to the market where the issued shares and bonds/debentures are sold and bought among investors through a broker of a stock exchange.

DOs for investing in the secondary market

(i) Before investing, check the credentials of the company, its management, fundamentals and recent announcements made by them and other disclosures made. The main sources of information are the websites of the exchanges and companies, databases of data vendors, business newspapers and magazines

(ii) Adopt trading/investment strategies commensurate with your risk-bearing capacity as all investments carry some risk, the degree of which varies according to the investment strategy adopted.

(iii) Transact only through SEBI-recognized stock exchanges and deal only through SEBI-registered brokers/sub-brokers.

(iv) Give clear and unambiguous instructions to broker/sub-broker/DP

(v) Insist on a contract note for each transaction and verify details in the contract note, immediately on receipt. If in doubt, crosscheck details of your trade available with the details on the exchange's website.

2.1.5 Some Basic Terms of Stock Markets

(i) Market Capitalization: A Company is divided into numerous shares and this number varies from company to company. For example, Infosys is divided into over 57 Crore shares and each share price is worth over Rupees 2500 today. TCS has over 195 Crore shares and each share price is worth over Rupees 1000 today. Market capitalization is nothing but the total value of a company (Total number of shares multiplied by current share price). As the share price varies from time to time, so does the market capitalization.

Market capitalization of Infosys = (57 Crore x 2500) = 1,42,500Crores

Market capitalization of TCS = (195 Crore x 1000) = 1,95,000 Crores

Thing to note here is, share price of Infosys (Rupees 2500) is more than the share price of TCS (Rupees 1000). But, TCS is the bigger company in terms of valuations or market capitalization.

(ii) EPS Earnings per share (EPS): EPS is nothing but, profits or losses made in the last 12 months divided by the total number of shares. Mathematically, it’s defined as below:

So, EPS changes every 3 months, based on the financial results announced by the company each quarter. If a company makes losses, its EPS turns negative. Now, let's take the example of TCS. TCS made profits of Rupees 7570 Crores in 2011 (FY 2011). We know that TCS is divided into 195 Crore shares.

EPS of TCS in 2011 = (TCS profits in 2011) / (Total number of share in TCS) = (7570 Crores) / (195 Crores) = 38 Rupees per share.

So, what does EPS of TCS in 2011 mean? It means that,each share of TCS worth Rupees 1000, earned or made profits of Rupees 38, in 2011.

(iii) Price Earnings ratio: P/E is a derived term from EPS. P/E is mathematically defined as below:

P/E = (Share Price of a stock) / (Earnings per Share)

P/E of TCS in 2011 = (Share price of TCS) / (EPS of TCS in 2011) = (1000) / (38)

Since, share price changes every day, so does its P/E. IT companies normally have a P/E of around 25. Steel companies normally have a lower P/E of 6. P/E varies from sector to sector and from company to company, based on various factors which cannot be analyzed or reasoned with. So don't worry about it.

P/E is similar to price of a land per square feet [(Price of Land) / (Total Area of Land)]. Land price in a City will always be higher than that of price of land in a Village. The common misunderstanding among amateur investors is that, lower P/E is cheap valuations and higher P/E is expensive valuations. This is so wrong. P/E is an immaterial factor, to find good worthy stocks for investing.

2.2 BENEFITS OF INVESTING IN SHARES

1. ***Capital gains over the long-term:*** Historically, equities have provided some of the strongest after-tax investment returns over the long-term. By owning equity in companies with growth potential, investors have the opportunity to benefit from capital gains as the asset grows in value over time. Investors enjoy unlimited participation in the earnings of the firm. Of course, investors cannot expect the company to pay out all its profits in a form of a dividend as this may come at the risk of future profitability and a lower share price.

2. ***A good source of income:*** The dividend yield on equities is another important source of return. Unlike term deposits, dividends from equities can have inflation built into earnings where companies are able to pass cost increases onto customers.

3. ***Highly liquid:*** Equities are traded on major stock markets around the world. They are highly liquid which means that they can be converted into cash quickly and with minimal impact to the price received. Unlike direct investments, there is relative ease in the transfer of ownership and the movement of equities.

4. ***Limited liability:*** One of the unique features of owning equities is the notion of limited liability. This means that when investors own equity in a company and in the event that company loses a lawsuit and must pay a large settlement; creditors can't come after investors' personal assets. Investor's liability is limited to the amount invested in the company.

2.3 DIFFERENCE BETWEEN ONLINE AND OFFLINE SHARE TRADING

Share trading was carried online after the introduction of internet. Prior to this, it was carried through brokers who placed buy/sell orders on your behalf. Online trading account simplifies trading as compared to the one held with broker. There are several benefits of holding an online trading account Angel Eye from Angel Broking over the traditional trading account held with brokers.

Below are few points highlighting the difference between Online and Offline Trading:

Trading: With an online share trading account, the users can place their own orders. On the other hand, an offline account means that users need to avail the services of a broker to place orders. Instructions are specifically given to the brokers in an offline trade, which creates dependence on the broking agency. Such dependence is non-existent when you choose to trade through an online account.

Convenience: An online stock trading account is a good option for people who have an Internet connection and track their orders from the convenience and comfort of their homes or offices. In case users are not able to access stock broking sites or do not have access to an Internet connection, placing orders on the phone with their brokers is more advisable.

Fraud: Because online share trading provides users complete control over the transactions, the risk of potential frauds is eliminated. There are certain instances when the brokers execute trades on behalf of their clients without receiving permission, which can cause significant losses to the users who choose offline trading.

Expertise and Knowledge: When users opt for an online stock trading account, they may get carried away. Without doing proper research and understanding more about how the stock market works, they may buy or sell shares, which can result in huge losses. This is avoidable with offline trading because the brokers have several years of experience and knowledge, which can be beneficial for users as they receive accurate guidance through the broking service providers. Fortunately, most of the agencies that offer online trading services offer access to research reports and other technical and fundamental analyses to assist account-holders to gain a deeper understanding to make the right investment decisions.

2.4 REQUISITES FOR ONLINE SHARE TRADING

Before getting started with online share trading it is essential to have certain things as without them one cannot start share trading. Of course, a client can start trading in stocks without these things but then he has to contact a share broker who can buy and sell shares on his behalf. But that way is a bit clumsy as client or investor has to depend on the broker for advice and moreover, it is too slow a process to buy and sell stocks through a broker. This type of trading is called offline share trading. To go online investor will need the following:

(i) **Stock broker:** General people can't go to a stock exchange and buy/sell stocks. Only members of the stock exchange can buy and sell and they are called the brokers. Every broker should be registered on the Securities and exchange board of India (SEBI). There are a number of brokers/ sub-brokers which you can choose for trading. Some online brokers are Sharekhan, Kotak Securities, ICICI Direct, 5paise and India Bulls.

(ii) **Saving Account:** Obviously you need a saving account for trading in the stock market. From savings account money will be transferred to trading account for transactions.

(iii) **Demat Account:** The first thing that is required is a Demat Account. Without demat account, an investor cannot do any trading in the stock market. There are many online broking houses operated by famous companies which facilitate opening a demat account. The examples are Sharekhan, Icicidirect, Reliancemoney and many more. An investor can go for any of them but the things to consider here are brokerage rates charged by the broking company, hidden charges if any. Moreover, investor should first go for an online demo of the services these brokers are offering before going ahead. To open a demat account few documents are required such as Identity proof, proof of address, PAN card, a cancelled cheque and a passport size photograph.

Facilities that an investor will get from demat account are:

(a) Holding securities in secured electronic mode

(b) Easy, fast and low cost transfer of securities

(c) Pledging

(d) Nominations

(e) Transmission

(iv) **Computer and Internet Connection To Trade Online:** Once investor has a demat account, her needs a computer so that he can trade online. A laptop is preferred because of its mobility. The last thing you need to get online is the most obvious, the internet connection.

Some people use internet cafes for share trading. This can be very risky with internet frauds increasing day by day. So better is that, an investor should have a setup of his own for online share trading.

2.5 PROCEDURE OF SHARE TRADING

The Trading procedure involves the following steps:

1. Selection of a broker:

The buying and selling of securities can only be done through SEBI registered brokers who are members of the Stock Exchange. The broker can be an individual, partnership firms or corporate bodies. So the first step is to select a broker who will buy/sell securities on behalf of the investor or speculator. Stock Brokers are registered members of stock exchange. Nobody except the stock brokers can directly buy and sell shares in Stock Market. An investor must contact a stock broker to trade stocks. For availing the service, the broker charges a fee called brokerage. It is generally a percentage of the value traded.

India has two big stock exchanges (Bombay Stock Exchange – BSE and National Stock Exchange – NSE) and few small exchanges like the Cochin Stock exchange. Investor can trade stocks in any of the stock exchange in India.

Here are a few more tips for choosing broker:-

(i) Some brokers are more geared for frequent traders and professionals. There are others that are geared more for beginners. For most novice investors, it is much better to go with beginner-friendly brokers. High professional stock brokers will have a long list of high flying investors.

(ii) Mostly investors use to select a broker who offers to charge fewer commissions on trade. Traditionally in India share brokers used to charge a certain percentage value of trade viz. 5% for delivery based trading. Most of the trader and large investor ended up paying brokerage worth lakhs of rupees. These types of brokers are known as traditional or full service brokers. But in last few years, with the advancement in technology, there is a new breed of brokers available in Indian markets which are called Flat fee or discount brokers. They have quickly taken a large share of trading value based on there aggressive brokerage charges. Flat Fee Stock brokers (also known as discount brokers) charges a fixed amount (i.e. Rs 15 or Rs 20) per trade irrespective to the size of the trade. The trader pays fixed price brokerage, say Rs 20, for trade of Rs 10,000 or Rs 1,00,000. This makes lot of sense to traders who trade multiple times a day.

(iii) Stockbrokers are service providers. They are in business to make investor wealthy. Some stockbrokers feel that their business is to buy and sell stocks. For them, money making is just incidental. If an investor feels uncomfortable about any investment proposition, then the investor should communicate it to the broke. If they go ahead and go against the investor, or compel him to buy shares of their choice, then definitely investor has the wrong stockbroker.

(iv) A good stockbroker will make decisions based on investor’s profile and then choose a stock. The broker should be able to explain to the investor in simple terms why he thinks that stock is a good choice for the investor. A broker will have to explain what the fundamentals are, about its market capitalization and PE, about its valuation and future prospects, about the degree of risk and the profit potential. The broker’s product knowledge is critical.

(v) Some broking houses publish excellent research reports exclusively for it’s members. The investor should ask prospective broker to give copies of earlier research reports and see if the opinions expressed in those reports have some degree of accuracy. These research reports are useful guides to get useful insights.

(vi) Be sure to get opinion from investors about the quality of service that the broker provides.

2. Opening Demat Account with Depository:

Demat (Dematerialized) account refer to an account which an Indian citizen must open with the depository participant (banks or stock brokers) to trade in listed securities in electronic form. Second step in trading procedure is to open a Demat account.

The securities are held in the electronic form by a depository. Depository is an institution or an organization which holds securities (e.g. Shares, Debentures, Bonds, Mutual (Funds, etc.) At present in India there are two depositories: NSDL (National Securities Depository Ltd.) and CDSL (Central Depository Services Ltd.) There is no direct contact between depository and investor. Depository interacts with investors through depository participants only. Depository participant will maintain securities account balances of investor and intimate investor about the status of their holdings from time to time.

Earlier, there used to be physical share certificates issued, which are now converted to Electronic form. A depository holds securities (like shares, debentures, bonds, mutual fund units etc.) of investors in electronic form (demat form) through a registered Depository Participant (DP). It also provides services related to transactions in securities. A DP is an agent of the depository through which it interfaces with the investor and provides depository services. It is now compulsory for every investor to open a beneficial owner (BO) account to apply in IPOs/FPOs or to trade in thestock exchange.

Benefits of availing depository services include:

(i) A safe and convenient way to hold securities

(ii) Immediate transfer of securities

(iii) No stamp duty on transfer of securities

(iv) Elimination of risks associated with physical certificates such as bad delivery, fake securities, delays, thefts etc.

(v) Reduction in paperwork involved in transfer of securities

(vi) Reduction in transaction cost

(vii) No odd lot problem, even one share can be traded

(viii) Nomination facility

(ix) Change in address recorded with DP gets registered with all companies in which investor holds securities electronically eliminating the need to correspond with each of them separately

(x) Transmission of securities is done by DP eliminating correspondence with companies

(xi) Automatic credit into demat account of shares, arising out of bonus/split/merger etc.

(xii) Holding investments in equity and debt instruments in a single account.

3. Placing the Order:

After opening the Demat Account, the investor can place the order. The order can be placed to the broker either (DP) personally or through phone, email, etc. Investor must place the order very clearly specifying the range of price at which securities can be bought or sold. e.g. "Buy 100 equity shares of Reliance Industries for not more than Rs 500 per share."

A Trading Member can enter various types of orders depending upon his/her requirements. These conditions are broadly classified into 2 categories: time related conditions and price-related conditions.

Time Conditions

DAY - A Day order, as the name suggests, is an order which is valid for the day on which it is entered. If the order is not matched during the day, the order gets cancelled automatically at the end of the trading day.

IOC - An Immediate or Cancel (IOC) order allows a Trading Member to buy or sell a security as soon as the order is released into the market, failing which the order will be removed from the market. Partial match is possible for the order, and the unmatched portion of the order is cancelled immediately.

Price Conditions

Limit Price/Order - An order that allows the price to be specified while entering the order into the system.

Market Price/Order - An order to buy or sell securities at the best price obtainable at the time of entering the order.

Stop Loss (SL) Price/Order - The one that allows the Trading Member to place an order which gets activated only when the market price of the relevant security reaches or crosses a threshold price. Until then the order does not enter the market.

A sell order in the Stop Loss book gets triggered when the last traded price in the normal market reaches or falls below the trigger price of the order. A buy order in the Stop Loss book gets triggered when the last traded price in the normal market reaches or exceeds the trigger price of the order.

E.g. If for stop loss buy order, the trigger is 93.00, the limit price is 95.00 and the market (last traded) price is 90.00, then this order is released into the system once the market price reaches or exceeds 93.00. This order is added to the regular lot book with time of triggering as the time stamp, as a limit order of 95.00

4. Executing the Order:

As per the Instructions of the investor, the broker executes the order i.e. he buys or sells the securities. Broker prepares a contract note for the order executed. The contract note contains the name and the price of securities, name of parties and brokerage (commission) charged by him. Contract note is signed by the broker.

5. Settlement:

This means actual transfer of securities. This is the last stage in the trading of securities done by the broker on behalf of their clients. There can be two types of settlement.

Dematerialised settlement : NSCCL follows a T+2 rolling settlement cycle. For all trades executed on the T day, NSCCL determines the cumulative obligations of each member on the T+1 day and electronically transfers the data to Clearing Members (CMs). All trades concluded during a particular trading date are settled on a designated settlement day i.e. T+2 day. In case of short deliveries on the T+2 day in the normal segment, NSCCL conducts a buy –in auction on the T+2 day itself and the settlement for the same is completed on the T+3 day, whereas in case of W segment there is a direct close out. For arriving at the settlement day all intervening holidays, which include bank holidays, NSE holidays, Saturdays and Sundays are excluded. The settlement schedule for all the settlement types in the manner explained above is communicated to the market participants vide circular issued during the previous month.

Physical settlement: Limited physical Market : To provide an exit route for small investors holding physical shares in securities the Exchange has provided a facility for such trading in physical shares not exceeding 500 shares in the 'Limited Physical Market' (small window).

2.6 RIGHTS AS A SHAREHOLDER

All shareholders have certain rights. Shareholders also need protection; not protection for assured growth of their investments but protection from malpractices and frauds. SEBI regulates the capital market and it has laid down guidelines for ensuring rights of the shareholders. For this purpose, it monitors all constituents of the capital market from issuers on one hand to stock exchanges on the other hand and all other intermediaries like stock brokers, merchant bankers and underwriters.

Rights as a shareholder are:

(i) To receive the shares on allotment or purchase within the stipulated time

(ii) To receive copies of the Annual Report of the company

(iii) To receive dividends, if declared, in due time

(iv) To receive approved corporate benefits like rights, bonus, etc.

(v) To receive offer in case of takeover, delisting or buyback

(vi) To participate/vote in general meetings

(vii) To inspect the statutory registers at the registered office of the company

(viii) To inspect the minute books of the general meetings and receive copies

(ix) To complain and seek redressal against fraudulent and investor unfriendly companies

(x) To proceed against the company, if in default, by way of civil or criminal proceedings

(xi) To receive the residual proceeds in case of winding up

2.7 LET'S SUM-UP

The use of online trades has increased the number of discount brokerages because internet trading allows many brokers to further cut costs and part of the savings can be passed on to customers in the form of lower commissions. Another benefit of online trading is the improvement in the speed of which transactions can be executed and settled, because there is no need for paper-based documents to be copied, filed and entered into an electronic format. By opting for the best trading account in India, investors can procure accessibility to all the stock exchanges across the country through a single platform. Account holders can access their online trading accounts from anywhere, at any point in time. With browser and application-based trading platforms, trading accounts can be accessed through a computer, laptop, smartphones, tablets, and other smart devices. The advanced technology ensures clients receive seamless transactional capabilities. The entire process of transfer of funds and equities is completed without any hiccups. This provides clients the ability to invest and save with convenience and ease, using a secure trading platform. To succeed in equity and other investing, having access to reliable research reports prepared by experienced and knowledgeable professionals is extremely helpful. Such reports are often supplied by the service providers, which makes it easier to make informed investment decisions. This can significantly increase the possibility of earning higher profits through investments. Placing orders through the online account is beneficial in streamlining the entire process. The different ways of accessing the account allow an investor to trade during market hours as well after-market hours, if the need so arises. The investment scenario in India has changed because of the online platform available to the investors. Now most of the share traders are using online platform for smooth share trading.

2.8 KEY TERMS

- Share trading
- Broker
- Settlement
- Demat
- Brokerage
- Equity share

2.9 SELF-ASSESSMENT QUESTIONS

(i) What do you mean by share trading? Why is it treated as an investment avenue?

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(ii) Briefly Narrate the role of stock broker in stock trading.

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2.10 FURTHER READINGS

(i) Jitendra Gala, Guide to Indian Stock Market, Buzzingstock Publishing House

(ii) Ravi Patel, 31 Stock Market Trading Tips, Buzzingstock Publishing House

2.11 MODEL QUESTIONS

(i) What do you mean by share trading? What are the basic requirements for starting online share trading?

(ii) Enumerate the differences between offline and online share trading.

(iii) Narrate the procedure of online share trading with pictorial representation.

UNIT-1

ONLINE BANKING

(1) Write a short note on online banking.

Online banking allows a user to execute financial transactions via the internet. Online banking is also known as "internet banking" or "web banking." An online bank offers customers just about every service traditionally available through a local branch, including deposits, which is done online or through the mail, and online bill payment. Convenience is a major advantage of online banking. Basic banking transactions such as paying bills and transferring funds between accounts can easily be performed at times convenient to consumers. In effect, consumers can perform banking transactions 24 hours-a-day, seven-days a week.

Online banking is fast and efficient. Funds can be transferred between accounts almost instantly, especially if the two accounts are held at the same banking institution. Banking accounts can be monitored more closely thanks to online banking. This allows consumers to keep their accounts safe. Around-the-clock access to banking information provides early detection of fraudulent activity that has the potential to cause financial or damage loss. Online banking allows for the opening and closing of fixed deposit and recurring deposit accounts that typically offer higher rates of interest. For a novice online banking customer, using systems for the first time may present challenges that prevent transactions from being processed. Although online banking security is continually improving, such accounts are still vulnerable when it comes to hacking.

(2) Write Down few tips for safe online banking.

Important Security Tips for Safe Online Banking

1. Access bank website only by typing the URL in the address bar of your browser.
2. Be aware of downloading any malicious application from mobile application stores. Kindly check their authenticity before downloading, by contacting your Bank.
3. Do not click on any links in any e-mail message to access the site.
4. Any bank or any of its representatives never sends email/SMS or calls over phone to get personal information, password or one time SMS (high security) password. Any such e-mail/SMS or phone call is an attempt to fraudulently withdraw money from account through Internet Banking. Never respond to such email/SMS or phone call.
5. Having the following will improve internet security:
   - (i) Newer version of Operating System with latest security patches.
   - (ii) Latest version of Browsers (IE 7.0 and above , Mozilla Firefox 3.1 and above, Opera 9.5 and above, Safari 3.5 and above, Google chrome,etc.)
   - (iii) Firewall is enabled.
   - (iv) Antivirus signatures applied
   - (v) Scan your computer regularly with Antivirus to ensure that the system is Virus/Trojan free.
   - (vi) Change your Internet Banking password at periodical intervals.
   - (vii) Always check the last log-in date and time in the post login page.
   - (viii) Avoid accessing Internet banking accounts from cyber cafes or shared PCs.

UNIT-2

ONLINE SHARE TRADING

(iii) What do you mean by share trading? Why is it treated as an investment avenue?

Shares' trading is the buying and selling of company stock in the hope of making a profit. Shares represent a portion of the ownership of a public company, and make up its worth or market cap.

Stock trading can be financially rewarding if done in the right way. Investing in the stock market involves riding the various ups and downs of the market. Since the introduction of online trading, investing in the stock market has become simple and convenient. Stock market trading is a great alternative when it comes to long-term wealth creation. Shares are one of the most popular investment avenues in the world. This is because the return offered by stocks is generally higher than any other financial instrument. However, to balance out the high return associated with stocks, the risk associated with these products is also quite high. Thus, it is treated as an investment avenue.

(iv) Briefly narrate the role of stock broker in stock trading.

A stock broker is an agent who represents clients to buy or sell stocks and other securities. The term is applied to both companies that deal in securities and their employees, who technically are registered representatives working for the brokerage. To most investors, however, the broker is the person they call when they want to invest in or trade stocks. Most individual brokers work in offices far removed from the stock trading floors. Stock brokers take on a tremendous amount of responsibility. Not only are they responsible for managing their client's money, but they must stay up-to-date on the latest tax laws, market research and financial news to provide their client with the best return.

A stockbroker is an individual / organization who are specially given license to participate in the securities market on behalf of clients. The stockbroker has the role of an agent. When the Stockbroker acts as agent for the buyers and sellers of securities, a commission is charged for this service. As an agent the stock broker is merely performing a service for the investor. This means that the broker will buy for the buyer and sell for the seller, each time making sure that the best price is obtained for the client. An investor should regard the stockbroker as one who provides valuable service and information to assist in making the correct investment decision. They are adequately qualified to provide answers to a number of questions that the investor might need answers to and to assist in participating in the regional market. Stock brokers are governed by SEBI Act, 1992, Securities Contracts (Regulation) Act, 1956, Securities and Exchange Board of India [SEBI (Stock brokers and Sub brokers) Rules and Regulations, 1992], Rules, Regulations and Bye laws of stock exchange of which he is a member as well as various directives of SEBI and stock exchange issued from time to time. Every stock broker is required to be a member of a stock exchange as well as registered with SEBI. Examine the SEBI registration number and other relevant details can be found out from the registration certificate issued by SEBI. Every broker displays registration details on their website and on all the official documents. Investor can confirm the registration details on SEBI website. The SEBI website provides the details of all registered brokers. A broker's registration number begins with the letters "INB" and that of a sub broker with the letters "INS".