E-BANKING: BENEFITS &CHALLANGES

Dissertation Submitted for thepartial fulfillment of the requirements for the degree of Bachelor of Business Administration

By

1	Noorah Abdu Hadadi	200931596
2	Hadeel Muhammad otaif	200930614
3	AshwaqYahyaFaqihi	200932163
4	WasheelaJaber Al-ahmadi	200932288

Major Subject: ACCOUNTING

Under the supervision of
Sumaya Shamas

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College of Business Administration
Academic Campus (1) for Girls
Jazan University, Jizan, K.S.A.

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I bow in the deep reverence to Almighty Allah (S.W.T), the most Beneficent and the most Merciful whose benign benedictions led me to produce this dissertation in its present form.

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Kingdom of Saudi Arabia
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Jazan University
College of Business Administration

CERTIFICATE

This is to certify that project report entitled as "E: Banking: Benefits & Challenges" is an original piece of work carried out by:.....
Under the supervision of Sumaya Shamas.
The project is the partial fulfillment of the requirements for the degree of 'Bachelor of Business Administration' and has been completed in stipulated time as per the statutes of University.

Sumaya Shamas
(Supervisor)
Finance & Banking

Dr Hana Abdul Al-Ati
Head of the Department
Dept. of Accounting

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INTRODUCTION

The advent of Internet has initiated an electronic revolution in the global banking sector. The dynamic and flexible nature of this communication channel as well as its ubiquitous reach has helped in leveraging a variety of banking activities. Electronic banking, also known as electronic funds transfer (EFT), is simply the use of electronic means to transfer funds directly from one account to another, rather than by cheque or cash. You can use electronic funds transfer to:

1* Have your paycheck deposited directly into your bank or credit union checking account.

2* Withdraw money from your checking account from an ATM machine with a personal identification number (PIN), at your convenience, day or night.

3* Instruct your bank or credit union to automatically pay certain monthly bills from your account, such as your auto loan or your mortgage payment.

4* Have the bank or credit union transfer funds each month from your checking account to your mutual fund account.

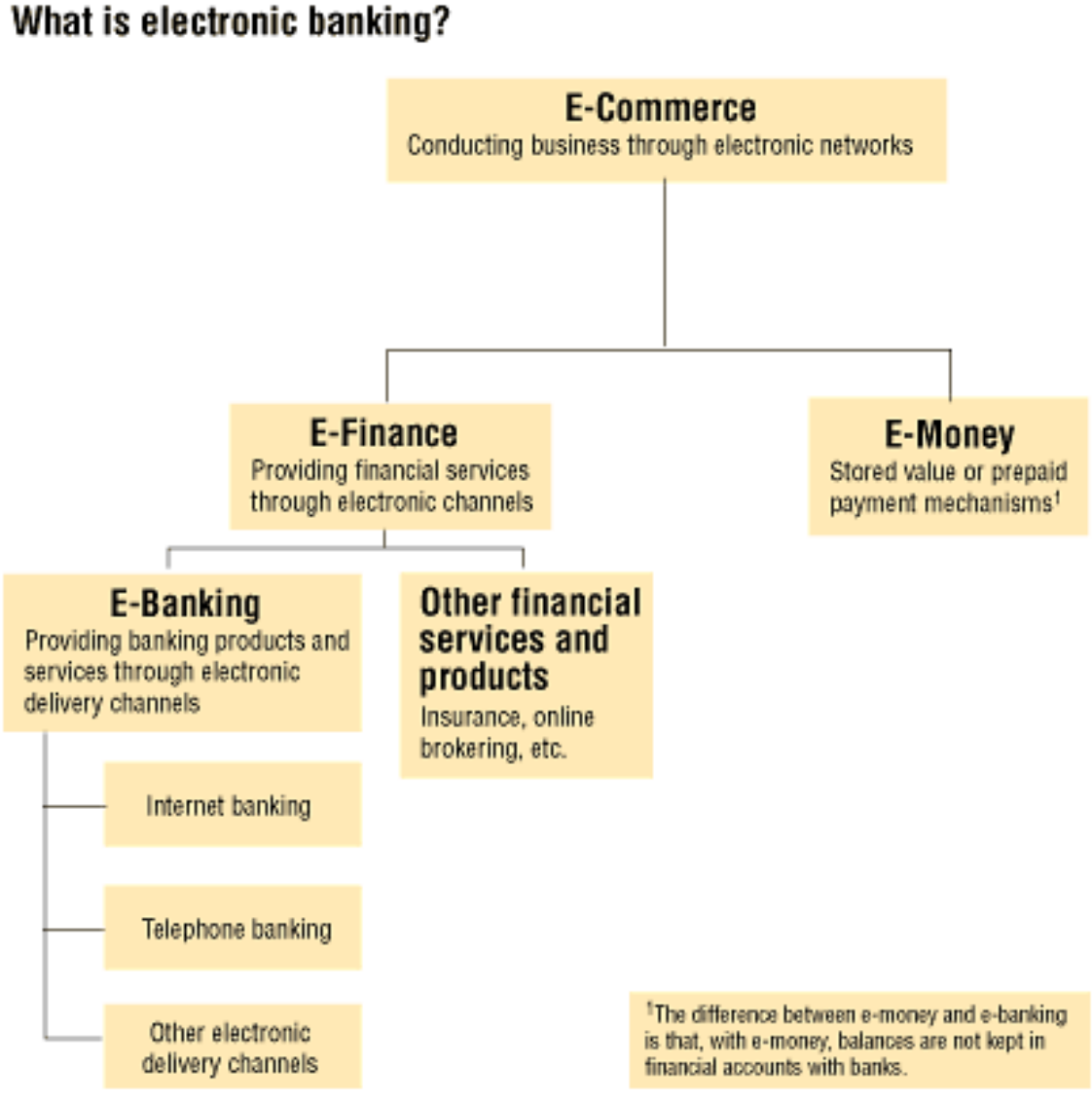
5* Have your government social security benefits check or your tax refund deposited directly into your checking account.

6* Buy groceries, gasoline and other purchases at the point-of-sale, using a check card rather than cash, credit or a personal check.

7* Use a smart card with a prepaid amount of money embedded in it for use instead of cash at a pay phone, expressway road toll, or on college campuses at the library's photocopy machine or bookstores.

8* Use your computer and personal finance software to coordinate your total personal financial management process, integrating data and activities related to

your income, spending, saving, investing, recordkeeping, bill-paying and taxes, along with basic financial analysis and decision making.



REVIEW OF THE STUDY

The study basically concentrates on the colossal revolution of E-banking and the Challenges thereof.

E-Banking has revolutionized to days banking by making it very fast, easy and far reaching. The expectations are growing at very fast speed on the E-Banking services. With the result, it is demanding more attention for study from various people around the globe. Huge volume of research has been done and is still going on different issues of E-banking. The research has helped the customers, the bankers, and other dependent institutions in understanding various aspects of E-banking. E-Banking has over-performed all the obsolete banking practices and the threat of security measures has also been growing with it. Researchers are trying to find out the ways to cover up this risk in the E-Banking and make it more sophisticated for everyone. The present research study has been done in this context only. There were huge amount of issues related to E-Banking available on the internet. But our study has emphasized on threats and the preventive measures to accept the challenging situations. Due, to the presence of time constraint, the study is based upon limited papers on the same issue.

OBJECTIVES

Internet banking has become very much popular now a day's throughout the globe. It has made the banking activities easier, faster and more accessible. Now people are trying to learn more about the E-banking. The primary objective of the research is to get the full acquaintance of the internet banking and its benefits. To add more knowledge about internet banking the following are the secondary objectives of this research study.

1. To know how the internet banking has revolutionised the banking sector.
2. To help the leaner's to know about the current concerns in the internet banking.
3. To know how challenging internet banking has become and how the banking sector applies different strategies to cope up with the challenging environment.

RESEARCH METHODOLOGY

The primary source of the information in this research study is the secondary data. The available information on internet regarding the E: Banking has been extensively used to complete the dissertation report. All the available Journals, Articles, papers provided necessary information to the group to finalize the research study. The group worked hard to collect all the necessary data to frame this report.

LIMITATIONS

The following limitations have been found by the team

1. The research study has been done from a selective material on the internet.
2. Only selective journals, papers and articles have been put to use because of the time factor.
3. There is the possibility of further updating of this research paper because of limited sources.

CHAPTERS

INTERNET BANKING:

Internet Banking lets you handle many banking transactions via your personal computer. For instance, you may use your computer to view your account balance, request transfers between accounts, and pay bills electronically.

Internet banking system and method in which a personal computer is connected by a network service provider directly to a host computer system of a bank such that customer service requests can be processed automatically without need for intervention by customer service representatives. The system is capable of distinguishing between those customer service requests which are capable of automated fulfillment and those requests which require handling by a customer service representative. The system is integrated with the host computer system of the bank so that the remote banking customer can access other automated services of the

bank. The method of the invention includes the steps of inputting a customer banking request from among a menu of banking requests at a remote personnel computer; transmitting the banking requests to a host computer over a network; receiving the request at the host computer; identifying the type of customer banking request received; automatic logging of the service request, comparing the received request to a stored table of request types, each of the request types having an attribute to indicate whether the request type is capable of being fulfilled by a customer service representative or by an automated system; and, depending upon the attribute, directing the request either to a queue for handling by a customer service representative or to a queue for processing by an automated system.

AUTOMATED TELLER MACHINES (ATM):

An **automated teller machine** or **automatic teller machine(ATM)** is an electronic computerized telecommunications device that allows a financial institution's customers to directly use a secure method of communication to access their bank accounts, order or make cash withdrawals (or cash advances using a credit card) and check their account balances without the need for a human bank teller. Many ATMs also allow people to deposit cash or cheques, transfer money between their bank accounts, top up their mobile phones' pre-paid accounts or even buy postage stamps.

On most modern ATMs, the customer identifies him or herself by inserting a plastic card with a magnetic stripe or a plastic smartcard with a chip that contains his or her account number. The customer then verifies their identity by entering a passcode, often referred to as a **PIN** (**P**ersonal **I**dentification **N**umber) of four or more digits. Upon successful entry of the PIN, the customer may perform a transaction. The growth of ATM's has rapidly grown in the public places around the globe.

TELE BANKING:

Undertaking a host of banking related services including financial transactions from the convenience of customers chosen place anywhere across the GLOBE and any time of date and night has now been made possible by introducing on-line

Telebanking services. By dialing the given Telebanking number through a landline or a mobile from anywhere, the customer gets the following facilities

Automatic balance voice out for the default account.

Balance inquiry and transaction inquiry in all

Inquiry of all term deposit account

Statement of account by Fax, e-mail or ordinary mail.

Cheque book request

Stop payment which is on-line and instantaneous

Transfer of funds with CBS which is automatic and instantaneous

Utility Bill Payments

Renewal of term deposit which is automatic and instantaneous

Voice out of last five transactions.

SMART CARD:

A smart card usually contains an embedded 8-bit microprocessor (a kind of computer chip). The microprocessor is under a contact pad on one side of the card. Think of the microprocessor as replacing the usual magnetic stripe present on a credit card or debit card.

The microprocessor on the smart card is there for security. The host computer and card reader actually "talk" to the microprocessor. The microprocessor enforces access to the data on the card.

The chips in these cards are capable of many kinds of transactions. For example, a person could make purchases from their credit account, debit account or from a stored account value that's reload able. The enhanced memory and processing capacity of

the smart card is many times that of traditional magnetic-stripe cards and can accommodate several different applications on a single card. It can also hold identification information, which means no more shuffling through cards in the wallet to find the right one -- the Smart Card will be the only one needed.

Smart cards can also be used with a smart card reader attachment to a personal computer to authenticate a user.

Smart cards are much more popular in Europe than in the U.S. In Europe the health insurance and banking industries use smart cards extensively. Every German citizen has a smart card for health insurance. Even though smart cards have been around in their modern form for at least a decade, they are just starting to take off in the U.S.

DEBIT CARD:

Debit cards are also known as check cards. Debit cards look like credit cards or ATM (automated teller machine) cards, but operate like cash or a personal check. Debit cards are different from credit cards. While a credit card is a way to "pay later," a debit card is a way to "pay now." When you use a debit card, your money is quickly deducted from your checking or savings account.

Debit cards are accepted at many locations, including grocery stores, retail stores, gasoline stations, and restaurants. .

E-CHEQUE:

An e-Cheque is the electronic version or representation of paper cheque.

The Information and Legal Framework on the E-Cheque is the same as that of the paper cheque's.

It can now be used in place of paper cheques to do any and all remote transactions.

An E-cheque work the same way a cheque does, the cheque writer "writes" the e-Cheque using one of many types of electronic devices and "gives" the e-Cheque to the payee electronically. The payee "deposits" the Electronic Cheque receives credit, and the payee's bank "clears" the e-Cheque to the paying bank. The paying bank validates the e-Cheque and then "charges" the check writer's account for the check

OTHER FORMS OF ELECTRONIC BANKING

Direct Deposit

Electronic Bill Payment

Electronic Check Conversion

Cash Value Stored, Etc.

BENEFITS/CONCERNS OF E-BANKING

BENEFITS OF E-BANKING

For Banks:

Price- In the long run a bank can save on money by not paying for tellers or for managing branches. Plus, it's cheaper to make transactions over the Internet.

Customer Base- the Internet allows banks to reach a whole new market- and a well off one too, because there are no geographic boundaries with the Internet. The Internet also provides a level playing field for small banks who want to add to their customer base.

Efficiency- Banks can become more efficient than they already are by providing Internet access for their customers. The Internet provides the bank with an almost paper less system.

Customer Service and Satisfaction- Banking on the Internet not only allow the customer to have a full range of services available to them but it also allows them some services not offered at any of the branches. The person does not have to go to a branch where that service may or may not be offer. A person can print of information, forms, and applications via the Internet and be able to search for information efficiently instead of waiting in line and asking a teller. With more better and faster options a bank will surely be able to create better customer relations and satisfaction.

Image- A bank seems more state of the art to a customer if they offer Internet access. A person may not want to use Internet banking but having the service available gives a person the feeling that their bank is on the cutting image.

For Customers:

Bill Pay: Bill Pay is a service offered through Internet banking that allows the customer to set up bill payments to just about anyone. Customer can select the person or company whom he wants to make a payment and Bill Pay will withdraw the money from his account and send the payee a paper check or an electronic payment

Other Important Facilities: E- banking gives customer the control over nearly every aspect of managing his bank accounts. Besides the Customers can, Buy and Sell Securities, Check Stock Market Information, Check Currency Rates, Check Balances, See which checks are cleared, Transfer Money, View Transaction History and avoid going to an actual bank. The best benefit is that Internet banking is free. At many banks the customer doesn't have to maintain a required minimum balance. The second big benefit is better interest rates for the customer.

CONCERNS WITH E-BANKING

As with any new technology new problems are faced.

Customer support - banks will have to create a whole new customer relations department to help customers. Banks have to make sure that the customers receive assistance quickly if they need help. Any major problems or disastrous can destroy the banks reputation quickly an easily. By showing the customer that the Internet is reliable you are able to get the customer to trust online banking more and more.

Laws - While Internet banking does not have national or state boundaries, the law does. Companies will have to make sure that they have software in place software market, creating a monopoly.

Security: customer always worries about their protection and security or accuracy. There is always question whether or not something took place.

Other challenges: lack of knowledge from customers end, sit changes by the banks, etc.

E-BANKING GLOBAL PERSPECTIVE

The advent of Internet has initiated an electronic revolution in the global banking sector. The dynamic and flexible nature of this communication channel as well as its

ubiquitous reach has helped in leveraging a variety of banking activities. New banking intermediaries offering entirely new types of banking services have emerged as a result of innovative e-business models. The Internet has emerged as one of the major distribution channels of banking products and services, for the banks in US and in the European countries.

Initially, banks promoted their core capabilities i.e., products, services and advice through Internet. Then, they entered the e-commerce market as providers/distributors of their own products and services. More recently, due to advances in Internet security and the advent of relevant protocols, banks have discovered that they can play their primary role as financial intermediate's and facilitators of complete commercial transactions via electronic networks especially through the Internet. Some banks have chosen a route of establishing a direct web presence while others have opted for either being an owner of financial services centric electronic marketplace or being participants of a non-financial services centric electronic marketplace.

The trend towards electronic delivery of banking products and services is occurring partly as a result of consumer demand and partly because of the increasing competitive environment in the global banking industry. The Internet has changed the customers' behaviors who are demanding more customized products/services at a lower price. Moreover, new competition from pure online banks has put the profitability of even established brick and mortar banks under pressure. However, very few banks have been successful in developing effective strategies for fully exploiting the opportunities offered by the Internet. For traditional banks to define what niche markets to serve and decide what products/services to offer there is a need for a clear and concise Internet commerce strategy.

Banking transactions had already started taking place through the Internet way back in 1995. The Internet promised an ideal platform for commercial exchange, helping banks to achieve new levels of efficiency in financial transactions by strengthening customer relationship, promoting price discovery and spend aggregation and increasing the reach. Electronic finance offered considerable opportunities for banks

to expand their client base and rationalize their business while the customers received value in the form of savings in time and money.

CHALLENGES OF THE "E-BANKING REVOLUTION"

Electronic banking is the wave of the future. It provides enormous benefits to consumers in terms of the ease and cost of transactions. But it also poses new

challenges for country authorities in regulating and supervising the financial system and in designing and implementing macroeconomic policy.

Electronic banking has been around for some time in the form of automatic teller machines and telephone transactions. More recently, it has been transformed by the Internet, a new delivery channel for banking services that benefits both customers and banks. Access is fast, convenient, and available around the clock, whatever the customer's location (see illustration above). Plus, banks can provide services more efficiently and at substantially lower costs. For example, a typical customer transaction costing about $1 in a traditional "brick and mortar" bank branch or $0.60 through a phone call costs only about $0.02 online.

Electronic banking also makes it easier for customers to compare banks' services and products, can increase competition among banks, and allows banks to penetrate new markets and thus expand their geographical reach. Some even see electronic banking as an opportunity for countries with underdeveloped financial systems to leapfrog developmental stages. Customers in such countries can access services more easily from banks abroad and through wireless communication systems, which are developing more rapidly than traditional "wired" communication networks.

The flip side of this technological boom is that electronic banking is not only susceptible to, but may exacerbate, some of the same risks—particularly governance, legal, operational, and reputational—inherent in traditional banking. In addition, it poses new challenges. In response, many national regulators have already modified their regulations to achieve their main objectives: ensuring the safety and soundness of the domestic banking system, promoting market discipline, and protecting customer rights and the public trust in the banking system. Policymakers are also becoming increasingly aware of the greater potential impact of macroeconomic policy on capital movements.

NEW CHALLENGES FOR REGULATORS

This changing financial landscape brings with it new challenges for bank management and regulatory and supervisory authorities. The major ones stem from increased cross-border transactions resulting from drastically lower transaction costs

and the greater ease of banking activities, and from the reliance on technology to provide banking services with the necessary security.

Regulatory Risk: Because the Internet allows services to be provided from anywhere in the world, there is a danger that banks will try to avoid regulation and supervision. What can regulators do? They can require even banks that provide their services from a remote location through the Internet to be licensed. Licensing would be particularly appropriate where supervision is weak and cooperation between a virtual bank and the home supervisor is not adequate. Licensing is the norm, for example, in the United States and most of the countries of the European Union. A virtual bank licensed outside these jurisdictions that wishes to offer electronic banking services and take deposits in these countries must first establish a licensed branch.

Determining when a bank's electronic services trigger the need for a license can be difficult, but indicators showing where banking services originate and where they are provided can help. For example, a virtual bank licensed in country X is not seen as taking deposits in country Y if customers make their deposits by posting checks to an address in country X. If a customer makes a deposit at an automatic teller machine in country Y, however, that transaction would most likely be considered deposit taking in country Y. Regulators need to establish guidelines to clarify the gray areas between these two cases.

Legal Risk: Electronic banking carries heightened legal risks for banks. Banks can potentially expand the geographical scope of their services faster through electronic banking than through traditional banks. In some cases, however, they might not be fully versed in a jurisdiction's local laws and regulations before they begin to offer services there, either with a license or without a license if one is not required. When a license is not required, a virtual bank—lacking contact with its host country supervisor—may find it even more difficult to stay abreast of regulatory changes. As a consequence, virtual banks could unknowingly violate customer protection laws, including on data collection and privacy, and regulations on soliciting. In doing so, they expose themselves to losses through lawsuits or crimes that are not prosecuted because of jurisdictional disputes.

Money laundering is an age-old criminal activity that has been greatly facilitated by electronic banking because of the anonymity it affords. Once a customer opens an account, it is impossible for banks to identify whether the nominal account holder is conducting a transaction or even where the transaction is taking place. To combat money laundering, many countries have issued specific guidelines on identifying customers. They typically comprise recommendations for verifying an individual's identity and address before a customer account is opened and for monitoring online transactions, which requires great vigilance.

In a report issued in 2000, the Organization for Economic Cooperation and Development's Financial Action Task Force raised another concern. With electronic banking crossing national boundaries, whose regulatory authorities will investigate and pursue money laundering violations? The answer, according to the task force, lies in coordinating legislation and regulation internationally to avoid the creation of safe havens for criminal activities.

Operational Risk: The reliance on new technology to provide services makes security and system availability the central operational risk of electronic banking. Security threats can come from inside or outside the system, so banking regulators and supervisors must ensure that banks have appropriate practices in place to guarantee the confidentiality of data, as well as the integrity of the system and the data. Banks' security practices should be regularly tested and reviewed by outside experts to analyze network vulnerabilities and recovery preparedness. Capacity planning to address increasing transaction volumes and new technological developments should take account of the budgetary impact of new investments, the ability to attract staff with the necessary expertise, and potential dependence on external service providers. Managing heightened operational risks needs to become an integral part of banks' overall management of risk, and supervisors need to include operational risks in their safety and soundness evaluations.

Reputational Risk: Breaches of security and disruptions to the system's availability can damage a bank's reputation. The more a bank relies on electronic delivery channels, the greater the potential for reputational risks. If one electronic bank encounters problems that cause customers to lose confidence in electronic delivery

channels as a whole or to view bank failures as system wide supervisory deficiencies, these problems can potentially affect other providers of electronic banking services. In many countries where electronic banking is becoming the trend, bank supervisors have put in place internal guidance notes for examiners, and many have released risk-management guidelines for banks.

Reputational risks also stem from customer misuse of security precautions or ignorance about the need for such precautions. Security risks can be amplified and may result in a loss of confidence in electronic delivery channels. The solution is consumer education—a process in which regulators and supervisors can assist. For example, some bank supervisors provide links on their websites allowing customers to identify online banks with legitimate charters and deposit insurance. They also issue tips on Internet banking, offer consumer help lines, and issue warnings about specific entities that may be conducting unauthorized banking operations in the country.

REGULATORY TOOLS TO OVERCOME CHALLENGES

There are four key tools that regulators need to focus on to address the new challenges posed by the arrival of E-banking.

Adaptation: In light of how rapidly technology is changing and what the changes mean for banking activities, keeping regulations up to date has been, and continues to be, a far-reaching, time-consuming, and complex task. In May 2001, the Bank for International Settlements issued its "Risk Management Principles for Electronic Banking," which discusses how to extend, adapt, and tailor the existing risk-management framework to the electronic banking setting. For example, it recommends that a bank's board of directors and senior management review and approve the key aspects of the security control process, which should include measures to authenticate the identity and authorization of customers, promote nonrepudiation of transactions, protect data integrity, and ensure segregation of duties

within E-banking systems, databases, and applications. Regulators and supervisors must also ensure that their staffs have the relevant technological expertise to assess potential changes in risks, which may require significant investment in training and in hardware and software.

Legalization: New methods for conducting transactions, new instruments, and new service providers will require legal definition, recognition, and permission. For example, it will be essential to define an electronic signature and give it the same legal status as the handwritten signature. Existing legal definitions and permissions—such as the legal definition of a bank and the concept of a national border—will also need to be rethought.

Harmonization: International harmonization of electronic banking regulation must be a top priority. This means intensifying cross-border cooperation between supervisors and coordinating laws and regulatory practices internationally and domestically across different regulatory agencies. The problem of jurisdiction that arises from "borderless" transactions is, as of this writing, in limbo. For now, each country must decide who has jurisdiction over electronic banking involving its citizens. The task of international harmonization and cooperation can be viewed as the most daunting in addressing the challenges of electronic banking.

Integration: This is the process of including information technology issues and their accompanying operational risks in bank supervisors' safety and soundness evaluations. In addition to the issues of privacy and security, for example, bank examiners will want to know how well the bank's management has elaborated its business plan for electronic banking. A special challenge for regulators will be supervising the functions that are outsourced to third-party vendors.

LOOKING FORWARD

An old Chinese saying goes: ***If you don't know where you are going - you will never get there.*** Globally, the financial sector is metamorphosing under the impact of competitive, regulatory and technological forces. The banking sector is currently in a transition phase with re-alignment, mergers and entry of new players from different industry is becoming common. Many countries including are de-regulating their banking sector and government policies no longer form an entry barrier to banks competitors.

Technology has leveled the playing field: the bargaining power of consumers is increasing, switching costs are becoming lower and consumer loyalties are harder to retain. Primary goal of the banking sector including every Bank is mainly to make profit, which in turn is ploughed back to increase business and reach, and pay dividends or share profits to the stakeholders. This is perfectly correct, yet generic goal. More over the product (schemes) differentiation is very difficult for banks as most of the products sold are constrained by legal or industry regulations. Now, if you are already thinking about Technology as a tool in Banking you could probably set some of these goals:

Selling financial products and services

Cutting operational costs

Branding & Market recognition

Keeping profitable customers

Every day more and more people are turning to the Technology for their personal banking. It is a safe, convenient way to shop for financial services, maintain bank accounts and conduct business 24 hours a day. Every one of us has always enjoyed a special relationship with their neighborhood bank. Why are so many people suddenly choosing their personal computers as the new way to view and manage their money? Quite simple - because it is a valuable option to have. Bank customers can save time by banking online. There is no need to stand in one more line to perform the most basic transactions when they can be done quickly from the desktop PC anytime, day or night. But even with more complicated transactions or investment decisions,

people like having direct control over their finances themselves. They find it convenient to access all of their financial information in one place. Ease of use is one of the most important factors. Navigation through online banking should be simple and intuitive. Banks need to appeal to customers who may not be technologically sophisticated, and should not require an engineering degree to get started or use the service. Customers also choose banks whose online services are reliable. Most Banks now offers a comprehensive range of financial products and services, including a FREE checking account and internet bill paying services. In addition, an array of checking accounts is available in which you may also request a FREE check card. Hence most Banks of following Electronic Banking or Internet Banking FREE have following services:

Get your balance details, Obtain your last 3 transaction details, Request a cheque book, Stop a cheque payment, Enquire cheque status, Request an account statement, Get Fixed Deposit details, Bill payment details for electricity, mobile phone and telephone services, Convenience of setting an operative account, Designate a particular account linked to your customer id as the operative account. Customer Service available 24 hours a day, 7 days a week E-banking Benefits

Benefits for the bank should always reflect benefits for the customer of banking services.

CONCLUSION

From all of this, we have learnt that information technology has empowered customers and businesses with information needed to make better investment decisions. At the same time, technology is allowing banks to offer new products, operate more efficiently, raise productivity, expand geographically and compete globally. A more efficient, productive banking industry is providing services of greater quality and value.

E-banking has become a necessary survival weapon and is fundamentally changing the banking industry worldwide. Today, the click of the mouse offers customers banking services at a much lower cost and also empowers them with unprecedented freedom in choosing vendors for their financial service needs. No country today has a choice whether to implement E-banking or not given the global and competitive nature of the economy. The invasion of banking by technology has created an information age and commoditization of banking services. Banks have come to realize that survival in the new e-economy depends on delivering some or all of their banking services on the Internet while continuing to support their traditional infrastructure.

The rise of E-banking is redefining business relationships and the most successful banks will be those that can truly strengthen their relationship with their customers.

Without any doubt, the international scope of E-banking provides new growth perspectives and Internet business is a catalyst for new technologies and new business processes. With rapid advances in telecommunication systems and digital technology, E-banking has become a strategic weapon for banks to remain profitable. It has been transformed beyond what anyone could have foreseen 25 years ago.

Two years ago, E-banking was a strategic advantage, nowadays; it is a business reality, if not a necessity.

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