

ONLINE BANKING

FAMILY ECONOMICS AND FINANCIAL EDUCATION

ONLINE BANKING

Everything in the world is becoming automated, creating faster, easier, and more convenient methods for consumers to manage their money. Included in the automation movement is the banking industry through the emergence of online banking. **Online banking**, also known as internet banking, allows consumers to complete transactions with their bank from a personal computer (PC) on a secure website or through other wireless technology, such as a personal digital assistant (PDA) or cellular phone. This type of banking allows consumers to access account information and statements, transfer funds, manage bills, and apply for loans and mortgages. Depository institutions are offering services such as electronic statements to decrease the cost of paper and postage. Consumers benefit from being able to store all statements online instead of keeping a paper copy of their most recent transactions and bill payments.

Online banking, also known as internet banking, allows consumers to complete transactions with wireless technology

Electronic bill paying allows consumers to send money from one account to a vendor.



ONLINE BILL PAYMENT

A common feature of online banking systems is online bill paying. **Online bill paying** allows consumers to send money from one account to a vendor. The payment is usually preformed electronically in real time. If a payment is made today, the vendor may receive the payment today as well. However, a consumer needs to find out the policy of the vendor and bank to know when the payment will actually be processed. Some institutions may take one or more business days for the actual transaction to occur. Examples of companies that implement online billing include but are not limited to:

- Retailer banks
- Credit card companies
- Insurance companies
- Energy and utility companies
- Health care providers
- Transportation companies
- Educational Institutions



Online bill payment may occur in multiple ways. A customer may either work directly with the depository institution or with the company to which money is owed. When working directly with a depository institution, the customer may order that an automatic payment be made to specific companies on a designated date. Or, the customer may go onto his or her depository institution's Web site to request that a one-time payment be made electronically to a specific payee. If working directly through a company, customers would go to the firm's Web site and enter their depository institution account information to authorize an online payment.



DETERMINE SECURITY

When using online banking, one of the important safeguards to watch for is to determine if the depository institution's or company's URL (Uniform Resource Locator) ends with an "s"; for example, <https://www.yourbank.com>. The "s" indicates the Web site is secure from potential online theft. In addition to that, a consumer can locate a closed pad lock in the bottom right hand corner of their Web site browser to indicate that the Web site they are making transactions through is locked. It is advised not to authorize payment through an email account. Instead, it is generally preferred to go directly to the company's Web site. E-mail accounts are not considered "secure." Because of this, sending social security numbers, bank account numbers, or PIN numbers through e-mail is not a safe practice and can lead to identity theft. Even though these threats exist there are ways to protect funds even when banking online. The Federal Bank of Chicago makes the following suggestions for consumer protection.¹

- Any passwords created should be combinations of letters, numbers, and characters to decrease the chance of an individual guessing the correct password. A password helps to set up an account with a retailer or business. After your account is set up your password will work as the key to managing and making purchases with your account.
- Change passwords at least monthly.
- Keep receipts and check debit and credit card statements carefully and frequently for any unauthorized or incorrect charges.
- When a person is finished working with any banking sites, he or she should log out immediately.

If a consumer senses any problems or has any questions, direct contact with a bank should be made immediately.

RECURRING PAYMENT

In addition to being able to pay bills online, consumers can set preferences such as a recurring bill payment. **Recurring payment** is an advantage for consumers. Bills are set to be paid on the due date or a previous date indicated by the consumer. The payment will occur automatically each month without writing out a check. However, it is the consumer's responsibility to verify that his or her account has sufficient funds to cover the expense of the payment. Depository institutions help to increase convenience by not requiring consumers to enter personal information each time they make a transaction.



REGULATION E

Personal information about many aspects of the lives of individuals is routinely gathered and stored online, which in turn causes an increased threat of fraud. The Federal Reserve established Regulation E, Electronic Fund Transfers, to combat the security issues of online banking. **Regulation E** covers all electronic fund transfers including transfers occurring through an electronic terminal, computer, telephone, or magnetic tape. The transfer must be conducted for the purpose of authorizing a depository institution to debit or credit a consumer's account.² If a consumer feels that his or her funds have been accessed without permission, it is best to report the problem immediately to the depository institution involved by either writing, calling or visiting in person.

CONSUMER PROTECTION

In addition to passwords and account information, online banking also includes an abundant amount of personal information to be divulged. Depository institutions are required to provide customers with a copy of the privacy policy. A depository institution's **privacy policy** outlines how a consumer's information will be used and protected. If a consumer is not happy with a depository institution's privacy policy, the consumer has the right to instruct a depository institution to authorize the sharing of limited personal information. In order for this to occur a consumer should choose to "opt out." **Opting out** of an institution's privacy policy limits personal information that can be shared with outside entities. Consumers find this important to have control over what individual information is shared with whom.