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Risks of Digital Banking

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Abstract: This article discusses the various risks that arise in transformation from the traditional banking system to digitalization. The main risks of digitalization of the banking sector are described in detail: credit, price, operational, interest, stock, legal, strategic, liquidity risk, etc.
Also, the impact of these risks on banking organizations and possible ways to minimize risks are described.

Keywords: digitalization, digital technologies, digital banking, risks, problems of banking system transformation.

Currently, the global economy as a whole and the banking sector in particular is experiencing two strong challenges: on the one hand, the recovery from the post-pandemic crisis, on the other hand, the transformation of the fifth industrial revolution accelerated after the pandemic, which is characterized by even greater digitalization and the widespread introduction of artificial intelligence. The pandemic taught an important lesson that the future is not a minor change in the past. But you need to clearly understand that the upcoming changes may not always have a positive impact on the activities of banking organizations. To make a decision on transformation, banks must calculate all the risks and weigh the benefits. It should be noted that the introduction of digitalization can both increase traditional banking risks and reduce them. The risks associated with the transformation of the banking sector include: credit, price, operational, interest, etc. But the risks do not always negatively affect the activities of banks, in many cases, new opportunities open up to overcome the risks, which became possible only in the era of digitalization .

The reasons for the increase in credit risk include online communication with borrowers, thus making it more difficult to verify the identity of the borrower, as well as increasing the possibility of falsifying documents (including collateral), which can lead to erroneous decisions about the client's solvency. Also, when issuing a loan through Internet banking, the number of loans issued is not tracked, which can lead to an increased concentration of loans in the hands of one client? This risk can be overcome with the help of blockchain technologies, as well as open banking, when almost all banks will have access to the customer database. It is also worth noting that with the full implementation of Internet banking technology using blockchain, banks will have more opportunities, because. this leads to a strong reduction in the costs of these operations.

Operational risks include failures in the functioning of systems and software, which leads to unavailability the provision of some services, massive failures and errors, the magnitude of which can affect the viability of all banking operations, such levels of risk can be classified as critical. In this case, any bank can become an object, regardless of the country or the scale of the bank itself. Therefore, the bank must meet the expectations of customers and ensure the smooth operation of online banking services. Thus, operational risk most often concerns the issue of security. Banks have always invested in security, among professionals there is even an opinion that a bank is an organization in which theft can be completely in any division.

However, when using Internet banking, it is natural that new varieties of this risk arise. To minimize such risks, banks are implementing additional controls at all chains of operations, and are also investing in spare capacities. Another way to deal with operational risk is to implement cryptographic systems, which prevent hackers from rewriting the code, because it is found in many computer systems. Non-standard approaches include deliberate hacking by a third party to identify weaknesses in the system and then eliminate them. However, practice shows that the system is more often vulnerable to internal intrusions than external ones. Employees can have all the information about the system codes; for this, control is involved at several levels.

Interest risk arises due to two main reasons: the Internet allows you to attract a wider audience that is interested in more favorable conditions for themselves (especially interest rates), the development of online trading. This risk can be avoided with the widespread introduction of open Internet banking. Interest rate risk can also be accompanied by equity risk. It is associated with the expansion of online trading and the ability to perform real-time operations simultaneously on several sites. However, it may also have a positive effect that the introduction of such a service as Internet trading attracts the capital of individuals and legal entities. Liquidity risk stems from the fact that customers are now able to make funds transfer transactions around the clock, which negatively affects the volatility of deposit accounts, as well as the bank's control of changes in deposits and loans. Legal risk mainly depends on the country in which the bank itself is located and the level of legal framework that is implemented in the country. However, it should be noted that with the development of Internet technologies, national borders are being erased, which means that the bank is influenced not only by the legislation of the country in which the bank itself is registered, but also by the legislation of the client. Because of this, another difficulty arises that banks may face - the peculiarities of regulation in different personal countries and collection of the necessary documentation from the client for the implementation of the international tranche. In the future, with the digital transformation of the banking system and the infusion of national banks into the global system, the legal risk can be significantly reduced. Reputational risk may arise when one of the above risks occurs. Those. at any stage, the bank may face it - the higher the level of any risk and the inability of the bank to cope with it, the greater the reputational risk will arise. That is why a special role should be given to marketing and the bank's press service for the correct disclosure of information. In addition, the client must have full information on the risks that he may bear, incl. on confidentiality, thus, banks must comprehensively broadcast information on the services they are ready to provide. In this case, the digital transformation of the banking sector can only increase this risk, because the client becomes available all the completeness of information from various sources.

Strategic risk has always existed. The bank must assess the risks and benefits when introducing an Internet bank, new online products. The bank must clearly allocate resources and assess its strength in the transformation and transition from the traditional system. Thus, risks have always existed - and before the introduction of digitalization, they will exist after it. The main task of banks is to transform risks into opportunities for the organization, which can only be realized through the introduction of more advanced technologies.

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