



## The Role and Importance of Internet Banking in the Modern Banking System

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### ABSTRACT

This article discusses issues related to the role and importance of Internet banking in the modern banking system, discusses the concepts of subjects and objects of Internet banking and the principles of operation and creation of the system in modern banking conditions, the pros and cons of online banking.

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**Maintaining.** As the Internet became commercialized in the early 1990s, traditional banks began looking for ways to provide online services to their customers. Despite the initial limited success of these early efforts, many banks have expanded their online presence with improved websites allowing new accounts to be opened, forms to be downloaded, and loan applications to be processed.

This led to the birth and growth of online banks. These institutions offer online banking and other financial services without a branch network. The first full-service FDIC-insured direct bank was Security First Network Bank, which began operations on October 18, 1995. Security First and those following were able to offer higher interest rates on deposit accounts and lower maintenance fees, all thanks to lower costs due to the lack of overhead.

As the choice of virtual banks has grown, so has customer enthusiasm for online banking. According to the FDIC's latest Banking Behavior Report, more than 60% of account holders conduct at least some of their banking online.

**Degree of knowledge.** Many foreign and domestic researchers have worked on the area of origin, the role and significance of Internet banking in the modern banking system, including: M. M. Mukhamedov, N. A. Kamilova, N. F. Samsonov, M. Korobova, Lavrushin O.I., Zharkovskaya E.P., Abdullaeva Sh.Z., Karimova A.M., Makarov L.A., Tavasiev A., Bratko A., et al.

**Research methodology.** This study was conducted using the methods of scientific abstraction, induction and synthesis.

**Main part.** The predecessor to modern online banking services was remote banking electronically and by telephone from the early 1980s. The term "online" became popular in the late 1980s and referred to the use of a terminal, keyboard and television or monitor to access the banking system using a telephone line. "Home banking" may also refer to the use of a numeric keypad to send beeps over a telephone line with instructions to the bank.

The first home banking service was offered to consumers in December 1980 by United American Bank, a community bank headquartered in Knoxville, Tennessee. United American partnered with Radio Shack to develop a secure user modem for its TRS-80 computer that allowed bank customers to securely access their account information. Services available in its early years included paying bills, checking account balances and credit applications, as well as access to games, budget and tax calculators, and daily newspapers. Thousands of clients paid \$25-30 a month for the service.

**Internet banking** is a system that gives customers the right to manage their deposit accounts, including bank card accounts, via the Internet. This type of service is a system designed to make payments in real time when the client is remotely connected to the bank. The user logs in via a web browser. The Internet banking system will be hosted on the bank's web server. The user has the opportunity to view all his information (payment documents and account statements) on the bank's website.

Through Internet banking, the client can at any time in the workplace or any other place where there is Internet access:

- make payments;
- monitor the payment process;
- receive the necessary reports, including the receipt of funds to the account.

A mobile banking system is also being built using Internet banking technology.

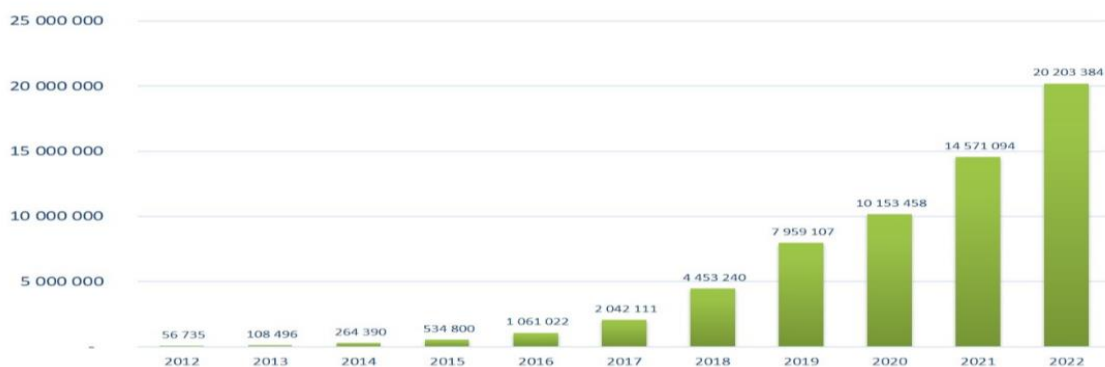
**SMS banking** - notification of bank clients about transactions on their deposit accounts, including card ones, and the status of these accounts by sending SMS messages to the mobile phone number specified by the client.

The SMS banking service allows the client to receive prompt information about:

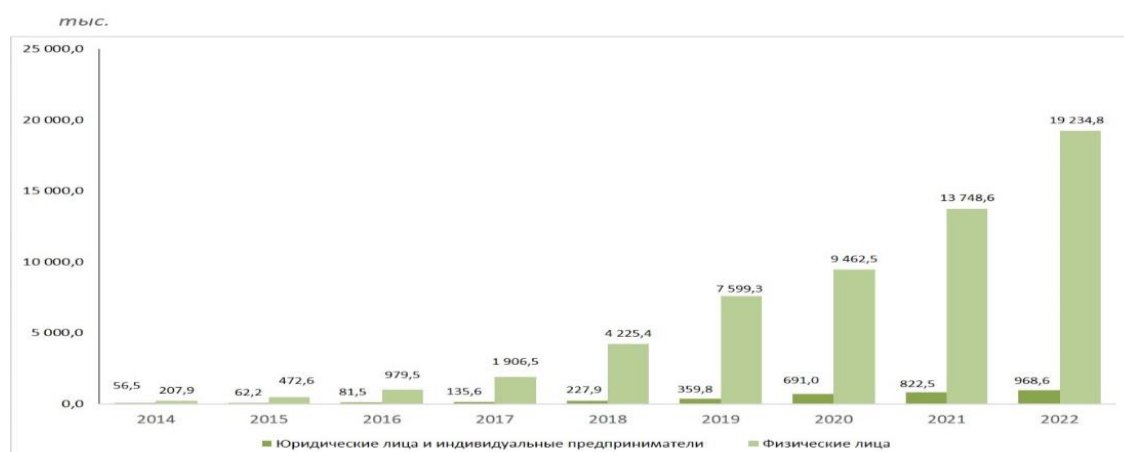
- receipt of funds to the account;
- debiting funds from the account;
- account balance;
- banking transactions carried out during the day.

Today, the population widely uses mobile applications of commercial banks to carry out card-to-card transfers in real time (P2P), make budgetary and utility payments, receive microloans and repay them, make online deposits, open remote deposit and loan accounts, conduct payments from an international bank card account, online conversion transactions and other services.

In turn, opportunities have been created for enterprises and organizations to manage funds from their bank accounts in real time and make payments, send an electronic application for the purchase (conversion) of foreign currency to the servicing bank, provide the bank with an electronic statement for the transfer of monthly wages and payments equivalent to it and use other services.



**Fig. 1. Number of users of remote banking services<sup>1</sup>**



**Fig.2. Number of users of remote banking services by type of client (January 1)<sup>2</sup>**

<sup>1</sup> <https://cbu.uz/ru/statistics/paysistem/584036/>

<sup>2</sup> Там же

Traditional and online banks, also known as direct banks, offer you access to your account online, as well as the ability to transfer money or perform other tasks with a few clicks of a cursor or taps on your phone screen. They're subject to the same laws and regulations—online-only accounts are FDIC-guaranteed just like traditional bank accounts. Security is generally the same, with both types using measures such as encryption to protect your funds and personal data.

But even if the two types have become somewhat closely related, important differences remain. Direct banks use their lower costs to offer better interest rates and, often, lower fees. Brick-and-mortar institutions offer a convenient range of options for deposits and other transactions, including the option of in-person service at a bank branch when you need it.

**Advantages of Internet banks.** Despite the growing virtual presence of traditional banks, online-only competitors still offer some distinct benefits to consumers.

The lack of significant infrastructure and overhead costs allow direct banks to pay higher interest rates or annual percentage yield (APY) on savings. The most generous ones offer 1-2% more than you'd earn on traditional bank accounts—a difference that can really add up if your balance is high. While some direct banks with particularly generous APYs only offer savings accounts, most offer other options, including high-yield savings accounts, certificates of deposit (CDS), and CDS with no early withdrawal penalties.

You're less likely to encounter a wide range of fees with direct banking, including those associated with opening an account with a low balance, making direct deposits, or paying by check or debit card. Direct bank accounts will likely have no minimum balance or maintenance fees.

Traditional banks are investing heavily in improving their virtual presence and service, including launching apps and updating websites. But overall, direct banks seem to maintain an edge when it comes to online banking. A 2018 Bain and Company survey of retail banking customers found that traditional banks lag behind direct banks in the areas that matter most to customers, including quality of banking service and speed and ease of transactions by 1% to 2%.

**Disadvantages of Internet banks.** Banking through an online institution also has its share of disadvantages and inconveniences.

A traditional bank provides an opportunity to get to know the staff at your local branch. This can be an advantage if and when you need additional financial services such as credit, or when you need to make changes to your banking agreements.

The bank manager usually has the discretion to change the terms of your account if your personal circumstances change or to waive mandatory fees or service charges.

Personal contact with a bank employee is not only about getting to know you and your finances. For some transactions and problems, going to a bank branch is invaluable. Take, for example, depositing funds - the simplest of banking transactions. Check depositing is possible at Direct Bank by using its banking app to capture both the front and back of the check. However, depositing cash at many online banks is downright cumbersome. So it's worth checking the bank's policy if you plan to do this frequently. International transactions can also be more difficult or even impossible with some direct banks.

Because they do not have their own ATMs, online banks rely on customers using one or more ATM networks such as AllPoint and Cirrus. While these systems offer access to tens of thousands of

computers across the country and even around the world, it's worth checking out the available computers near where you live and work.

Some direct banks may not offer all the comprehensive financial services that traditional banks offer, such as insurance and brokerage accounts. Traditional banks sometimes offer special services to regular customers, such as preferential rates and investment advice at no additional cost.

**Conclusion and proposal.** Both traditional and online banks have their advantages. Essentially, you need to decide whether the services and personal touch of a brick-and-mortar institution outweigh the often higher costs associated with lower interest rates and more fees of banking there. Also, based on the individual preferences of clients, you can choose any type of service to the banking system. both online banking and traditional banks.

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