CHAPTER 1

INTRODUCTION

Banking and financial institutions in Malaysia are increasingly challenged by the need to be more customer-focused, competitive and efficient. In a sense, the industry is evolving towards a more liberalised market environment. This can be seen in the world trend where companies are no longer dependent on their restricted domestic or regional market; rather they are moving outward into the international arena. With the liberalisation of ASEAN Free Trade Area or AFTA 2003, Asian companies must be prepared to face greater challenges when the various governments loosen up their international trade policies or trade barriers. In particular, Malaysian companies should gear themselves to the need for globalisation by capitalising on vast untapped opportunities across the business landscape.

Moreover, the positive encouragement by the Malaysian government, hitherto given to banking mergers and a green light to cross-sell financial products and services will also result in greater competition domestically. This has inevitably led to a blurring of traditional boundaries between banks, finance companies, insurance companies, security firms and even mutual fund companies as each of them compete for the same financial assets with increasingly similar products and services.

In addition, the introduction of Multimedia Super Corridor (MSC) by the government has revolutionised the business of banking. The MSC provides a local platform for electronic commerce with the rest of the world. In creating an enormous advantage for Internet banking and commerce, it helps to reduce costs, increase speed and improve flexibility or convenience of business transactions. To reap the benefits, it is appeared that Malaysian bankers would have to adopt new technology and increase their information technology spending in the near future especially in the area of electronic delivery channels such as the Automated Teller Machines (ATMs), phone banking centre and PC banking facilities.
According to the Ernst & Young's 1997 Special Report on Technology in Banking and Financial Services, the trend is already underway but it is taking differing forms in different parts of the world.

- In the United States of America, there were approximately 14,000 banks five years ago but today, only about 9,000 banks are available.
- Contrary to international trends, 30 percent of Latin American banks are increasing the number of their branches.
- In Europe, 18 percent of the banks have plans to reduce the number of branch locations.
- Globally, banks will increase the number of ATMs by 34 percent and 60 percent in Australia.
- In the United States and Canada, some 77 percent of financial institutions have Internet presence. However, most have merely set up web pages as an information site.
- Only 12 percent of the participants in the study are performing transactions on the Internet. In the next two years, an additional 59 percent of the respondents plan to offer Internet transactions for customers.

However, according to the report, most banks appear to be proceeding with caution toward full transactional use of the Internet as security still remains the primary challenge.

In the last few years, many Malaysian banks have realised the importance of electronic delivery channels in helping to reduce their escalating operating expenditures. This was done through automating the unprofitable banking transactions at branch offices such as cash withdrawal or deposit and updating bank balances. With the freeing up of human resources, banks could concentrate more on profitable businesses such as the private or priority banking services and loan businesses. At the same time, electronic banking services can be used as a strategic tool to tap new markets or acquire new customers in particularly the time-poor customers that demand greater flexibility in banking hours and convenience of location in making banking transactions. Therefore, these early adopters of
electronic banking would be more prepared in meeting the challenges ahead compared to the late majority.

1.1 PURPOSE OF THE STUDY

The purpose of this research project is to examine consumer perception and behaviour towards the usage of electronic delivery channels or electronic banking media in Malaysia with emphasis on the Automated Teller Machine (ATMs), phone banking and PC banking. With the global trend moving towards an electronic environment, it is generally believed that early adopters of electronic banking media would be those who have greater exposure and are comfortable with the usage of information technology products.

More specifically, this study attempts to survey the university students in Malaysia, both undergraduate and post-graduate students, who are believed to be the forerunners in the usage of information technology products especially computer or computer-related products. Many studies in developed countries had shown that the early adopters of technological products often tend to be younger, more educated, had high social economic status, and had many contacts both within and outside social group or community (Britt, 1997; Tracy, 1997; Rosenberger, 1998). Teoh (1998) also confirmed that cyber-banking users in Malaysia were young singles or just married. They had higher education and higher income while working in the private sector.

This study hopes to shed some light in understanding the demographic profile on whether age, education, or higher social economic status, are more important variable in adopting the electronic banking media in Malaysia. But more importantly, this study is aimed at determining the level of awareness on the existence and usage of electronic banking media among university students who are the current and potential users of these electronic channels. It is therefore vital to understand their banking behaviour at present in terms of their preference of usage in various
electronic banking media and the selection of banking services which are most frequently used.

In addition, it is the purpose of this study to investigate consumer perception on the various characteristics of electronic banking media such as its usefulness, reliability, security, convenience and efficiency. With this knowledge, we will understand which particular aspects of electronic banking services that are vital for the consumers to adopt new electronic banking channels.

This study would also like to identify the reasons for not using any of the electronic banking media among the Malaysian consumers, in particular the local university students. This will bring about a new understanding on whether it is the security concerns and fear of using the media or pure ignorance, apathy and totally indifference towards such media. Lastly, this study attempts to determine the university student perception on the importance of electronic banking media in Malaysia and the likelihood of future usage. For planning purpose, the banking community would definitely be keenly interested to know its potential market and be forewarned and hence, be forearmed for the future.

1.2 RESEARCH QUESTIONS

In order to achieve the objectives of the study, the following research questions were investigated:

(1) Are there significant differences in banking behaviour between undergraduate and post-graduate students in relation to the awareness, involvement, usage and level of satisfaction of electronic banking media?

(2) Are there significant differences in consumer perception on electronic banking among consumers of differing gender, ethnic groups, age, marital status, education levels, field of study, income levels, occupational levels and occupational types?
(3) Are those more inclined toward the usage of information technology tend to be the early adopter of electronic banking?

1.3 SIGNIFICANCE OF THE STUDY

The findings of this study would be useful to both Malaysian bankers and planners in government departments. The bankers would be interested to know more about the level of awareness on electronic banking media among consumers to determine the effectiveness of their advertising strategy. This particular market should not be neglected by marketers because the university students are tomorrow's affluent consumers, earning USD600,000 more than their high school graduate counterparts over their life-span (Finn, 1988). And this disparity escalates as the number of years of college education increases.

Furthermore, a better understanding of the university students' banking behaviour and perception toward electronic banking will assist the bankers to provide the right products and services to them. According to Swenson (1990), these young consumers will set up mini households from buying groceries and paying utility bills to doing their first serious banking in university. They are willing to try new products when they form spending habits and brand loyalties. In addition, university students are the most important trendsetters, influencing not only their peers and high school students but also their parents and society as a whole.

From the government perspective, this study will provide vital statistics about the friendliness of information technology usage among local university students, particularly students from University of Malaya. It is important to know whether university students, who would be the back-bone of the nation's future, have sufficient training and preparation in this Information Age as Malaysia is striving towards achieving developed country status by year 2020. It is based on the premise that our Prime Minister Dr. Mahathir Mohamad had committed the nation into developing the Multimedia Super Corridor (MSC) and as Malaysia embraces the borderless world by opening our market to new forms of partnership and commerce.
If our future corporate and national leaders have high literacy level in information technology (IT), then they are likely to have a better chance to compete globally in the new wave of electronic commerce and banking. If in the case they are not IT literate, then this study will be the turning point for the Education Ministry to revise their curriculum to encourage students to harness the usage of information technology in particular using computer or computer-related products. By doing so, hopefully we can rise up as global players to be on par with the developed nations.

1.4 SCOPE OF THE STUDY

Teoh (1998) made a comparative study between cyber-banking and conventional banking. However, he did not separate the various electronic banking media. In his study, he concentrated only on products and services offered by the bank in relation to consumer preference, where the respondents were customers from selected banks in Klang Valley. The research analysis employed by Teoh was a basic test on mean and frequency without using any rigorous statistical tool. Nevertheless, he had made a bold move to pioneer this project and made some interesting findings such as male respondents prefer to use cyber-banking than female respondents.

For this research, it will only concentrate on electronic banking and its delivery channels like the ATMs, phone and PC banking. From here, a test on different aspects, like the level of consumer awareness, involvement, usage and satisfaction of various electronic banking media among the segmented group of university students. This research will not study the general population of Malaysia due to time and resource constraints. Besides banking behaviour, the research also look into consumer perception on the benefits and weaknesses of electronic banking, without forgetting to test the level of information technology usage among the respondents. In this analysis, rigorous statistical tools will be used to improve the findings.
1.5 LIMITATIONS OF THE STUDY

There are several limitations in this research project. First, the subject on electronic banking is relatively new to the world. As a result, very few studies were done on this topic, particularly in Malaysia. Hence, this study encountered limited past academic references to be included in the literature review. Most of the materials were found in the up-dated CD-ROM collections, the Internet, the business periodicals and journals, or even newspapers.

Secondly, more than half of the study was based on perception of the respondents on electronic banking and information technology. The question on whether there is a difference in perception and actual behaviour is unknown. This question is probably best be answered by psychologists but on the main, such data is generally accepted in the research circles as statistically acceptable and representative of a given population. Besides, consumer perception is important to determine their actual behaviour in the buying process.

The methods related to data collection needed to be reviewed as this study could not employ an equal chance of selecting a student in the population. Due to time and resource constraints, a convenience sampling was employed to determine the respondents. Nevertheless, careful measures were taken to ensure that the sample is reflective of the entire student populations. For example, the study would only target 15 respondents in every faculty in University Malaya. Also, there was an equal proportion of male and female respondents, in addition to the consideration of the various ethnic groups available in Malaysia.

Finally, there is an issue of whether the respondents fully understand the concepts relating to electronic banking. The reason is because of the low exposure to various delivery channels in electronic banking, especially the phone and PC banking. Fortunately, immediate clarifications were given to enhance their understanding so that the respondents could answer the questionnaire correctly.