Chapter 1

Introduction

1.0 Overview

Under the present changing environment, the banking and financial institutions in Malaysia face fierce competition especially for profitable business and loyal customers. This development owes much to changes in the economic and business environments, such as international competition, deregulation, banks' diversification into financial supermarkets, and rapid technological advancement, which have important implications for the ways in which banks are being organized for the present and in future.

Success will undoubtedly come to the banks or financial institutions which have structured their organization with the right blend of key strategies and proper planning, designed to harness and to master the new technologies, and to respond promptly and effectively in seizing the opportunities and in minimizing the threats and risks.

The introduction of Multimedia Super Corridor (MCS) by the Malaysian government, which provides a local platform for electronic commerce with the rest of the world has led innovative banks to invest in Internet banking to become more competitive and to woo more customers. Those innovative domestic banking institutions took the first opportunity to roll out their e-commerce models as soon as the green light was given to commerce from 1 June 2000. Meanwhile, the locally incorporated foreign banks have to wait until 1 Jan, 2002 before they can enter the Malaysian Internet transaction marketplace. The Internet banking provide substantive advantages to the banks. Among the benefits of Internet banking as follow:
a. Reduce Operating Costs
Internet banking reduces a bank's costs in two fundamental ways: it minimizes the cost of processing transactions and reduces the number of branches required to service an equivalent number of customers. According to the American Banking Association, the average cost for a full service branch transaction is roughly US$1.07. Since an Internet banking transaction links directly to the back-end processing system, an Internet transaction cost roughly US$0.01 (Booz, Allen & Hamilton, 1996).

b. Identify Customers Need
Internet sites collect useful data in ways that are virtually impossible to collect through any other medium. Tracking software allows a bank to monitor which web pages customers (and prospective customers) view and how they spend viewing them. This information, when combined with customer databases, allow financial institutions to target banking products and services more effectively to customers. In addition, it also help the bank to identify which customer segments are more profitable and to target special offerings to maintain their loyalty.

c. Identify New Fee Services
The Internet banking provides opportunities for the bank to generate additional revenue from customers by offering new types of products and services, increased ability to cross-sell and target profitable market.

Although the Internet banking offers substantive advantages to the banks, it does not mean that the banks will benefit from it. It depends much on the customer awareness and acceptance to this new service channel.

This study would find out to what extend the Malaysian consumers are aware and use Internet banking and to identify which mass media is better to create the consumers awareness towards the Internet banking. In addition, this
study would investigate the consumer perception on the various characteristics of Internet banking such as its security, convenience and service quality.

1.1 Definition of Internet Banking

Bank Negara Malaysia (BNM) refers Internet banking as “banking products and services offered by banking institutions¹ on the Internet through access devices, including personal computers and other intelligent devices” (Pricewaterhouse-Cooper, 2000).

‘Intelligent devices’ include interactive televisions, palm computers/organiser and mobile telephones (using Wireless Application Protocol (WAP) technology). However, intelligent devices do not include point of sale terminals, automatic teller machines (ATMs), telephones and smart cards- which are all electronic banking access devices.

The interpretation of Internet banking by BNM appears to be congruent with the US Federal Reserve’s scope of Internet banking that states: “Systems that enable bank customers to access accounts and general information on bank products and services through a personal computer or other intelligent device” (PricewaterhouseCoopers, 2000).

In this study, Internet banking refers to systems that enable bank customers to access accounts (for example savings account, current accounts, fixed deposits, mortgage, loans, cash transfer etc.) and general information on bank products and services through a personal computer and other intelligent devices. However, more emphasize is given on personal computer.

¹Banking institutions’ are legal entities licensed under the Banking and Financial Institutions Act 1989 (BAFIA) or Islamic Banking Act 1983 (IBA). The license essentially allows the institution to accept deposits from and issue loans to the customers, while giving BNM the right and obligation to supervise or regulate them in order to curtail risky practices and create a level playing field in the banking industry.
1.2 Objectives of Research
Firstly, this study is aimed at determining the awareness on the existence and usage of Internet banking among the working people in Kuala Lumpur and Ipoh. It also hope to shed some light in understanding whether impersonal mass media sources are important variable for creating Internet banking awareness in Malaysia.

In addition, this study would like to find out the demographic profile on whether education or social economic status are important variable influencing the levels of consumer awareness towards Internet banking in Malaysia. According to Booz, Allen & Hamilton (1996), the average Internet user has a household income more than US$66,700, compared to US$42,000 for the average U.S. household. Similarly, Internet users tend to be better educated than non-Internet users.

Besides that, it is the purpose of the study to investigate consumer perception on the various characteristics of Internet banking such as its convenience, security, and service quality. With this knowledge, we will understand which particular aspects of Internet banking services that are vital for the consumers to adopt the new banking channel.

This study would also like to identify the reasons for not using the Internet banking among the Malaysia consumers. 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 total indifference towards such media. For planning purposes, the banking community would definitely be keenly interested to know its potential market hence, be forarmed for the future.
1.3 Research Questions
The research is carried out to determine the following specific questions:

a. What is the overall percentage of customers who are aware and use Internet banking?

b. Is the impersonal mass media sources better than the personal/interpersonal sources for creating Internet banking awareness in Malaysia?

c. Are there significant differences in relation to the level of knowledge on Internet banking among the working groups of differing education levels, occupational levels and locations?

d. Are there significant differences in consumer perception on Internet banking in relation to its convenience, security, service among the working groups of differing education levels, income levels, occupational levels and locations?

e. What improvements to the Internet banking could be made to cause non-users to use the new delivery channel?

1.4 Significance of the Study
This study is important as Internet banking will definitely emerge as an important delivery channel element in our future banking system. The findings of this study would be helpful to Malaysian bankers, planners in government and private sector departments. The bankers would be interested to know more about the level of awareness on Internet banking among the working groups to determine the effectiveness of their promotion and advertising strategy. It is also hoped that the information presented in this study will provide banks that have not yet ventured into Internet banking with a better insights into the vast potential market.

From the public and private sector perspective, this study will provide vital statistics about the Internet literacy among the working groups. It is important to know whether the working groups have sufficient information technology knowledge to compete effectively and efficiently as Malaysia is striving towards achieving the Vision 2020. If the Malaysian society has low Internet literacy, then this study will be the turning point for both the government and public sector to
organize information technology training such as Internet course to their employees.

1.5 Sources of Data
This research utilised two main sources of data:

a. Secondary data
Since the subject of this research is rather new, especially in Malaysia, the availability of past data and information is very limited. Although the sources were limited, the materials, information and opinion obtained from published periodicals, magazines, books, Proquest Dissertation Abstract, banks’ brochures and Internet were referred in this presentation.

b. Primary data
To obtain the primary data, a self-administrated questionnaire was prepared for distribution. The questionnaire would reflect the understanding, perception and usage of Internet banking. There are 5 sections in the questionnaire which comprises of 47 simple questions as shown in Appendix A.

1.6 Selection of Sample
In view of the constraints involved, such as time factor and the growth of Internet banking. This study was confined to the working people in Kuala Lumpur and Ipoh.

Kuala Lumpur, the capital city of the Federation of Malaysia, is centrally located on the west coast of Peninsular Malaysia. It is the main business, banking and finance, manufacturing and information technology in Malaysia. It has a population of 1.2 million people in 1998. Of the population, 55% is Malays, 29% is Chinese, 7% is Indian and 9% is others ethnic. Ethnic Malays are in the majority nationally, however ethnic Chinese constitute the predominant group in Kuala Lumpur.
Ipoh is the state capital of Perak. It has a population of more than 460 thousand in 1998. It is situated in the heart of the Kinta Valley. It is the centre for trade and commerce, banking and finance, culture as well as education. The population consists of 13% Malays, 64% Chinese, 5% Indian and 18% others.

From the total population of Kuala Lumpur and Ipoh, 150 samples was chosen in which 100 individuals from Kuala Lumpur and 50 from Ipoh using convenience sampling technique through mall intercept. According to Roscoe (1975), sample sizes larger than 30 and less than 500 are appropriate for most research.

1.7 Scope of the Study
Internet Banking is a new subject in Malaysia as it was just introduced recently. Hence, the study may be limited. Nevertheless, as the Internet banking is part of the electronic banking offered, in which provides services similarly to PC banking and automatic teller machine (ATM), these may bring some lights to the study and findings of the study. The research project would look into a few aspects of Internet banking, like the level of consumer knowledge and perception of Internet banking.

This research will not study the general population of Malaysia due to time and resource constraints. It would focus on the working groups in Kuala Lumpur and Ipoh for convenience purpose.

1.8 Limitations of the Study
There are several limitations in this research project. First, the subject on Internet banking is relatively new to the world. As a result, very few studies were done on this topic. There is no study has been done 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 updated CD-ROM collections, the Internet, the business periodicals, journals and newspapers.
The method related to data collection needed to be reviewed as this study could not employ an equal chance of selecting a working adult in the population. Due to time and resource constraints, a convenience sampling was employed to determine the respondents.

1.9 Organization of the Study

This study consists of five chapters as follow:

Chapter 1 is the introduction which gives the definition of Internet banking, explains the research objectives, scope of the study, significance of the study and limitations of the study.

Chapter 2 is the literature review which will highlight some of the past studies on awareness concept, opinions and descriptions on Internet banking and its related issue.

Chapter 3 is the methodology used in this research project. This section explains in details the source of the data taken, data sampling, research instrument and collection.

Chapter 4 is the data analyses and findings on the data collected for this study. There are various statistical results obtained using Statistics Package for Social Science (SPSS) application, such as frequency, cross tabulation and T-test.

Chapter 5 is the recommendation and conclusion where the author presents her comments, opinions and recommendations base on the study and results obtained in the earlier section. The information might be useful for future research, especially for those who intend to further or expand the research topic.