

CHAPTER 1: INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Banking has been always a highly information intensive activity that relies heavily on information technology (IT) to acquire, and deliver the information to all relevant users. IT is not only critical in the processing information; it provides a way for the banks to differentiate their products and service in the market. Therefore, banks find that they need to constantly innovate and update their information technology to retain their demanding and discerning customers. This is to ensure that they can provide convenient, reliable, and expedient services. Driven by the challenge to expand and capture a larger share of the banking market, some banks invest in more bricks and mortar to enlarge their geographical and market coverage. Others have considered a more revolutionary approach to deliver their banking services via a new medium called as internet. Since the introduction of the internet in 1969, it has evolved from the sole domain of the computer nerd and the academic to mainstream channel of communication (Newmzow.C, 1997). Recently, it has been rapidly gaining popularity as a potential medium for electronic commerce (Crede, 1995). Today the internet is well on its way to become a full – fledged delivery and distribution channel for the consumer oriented financial product and services banks. Together with the rapid diffusion of internet, banking in cyberspace is fast becoming an alternative channel to provide banking services and products. The internet is now being considered as a strategic weapon and revolutionizes the ways the banks operate, deliver and compete against one another, especially when competitive advantages of traditional branch networks are eroding rapidly (Newmzow.C, 1997) ;

(Seitz, 1998). As “business week” noted “banking is essential to modern economy but banks are not” (quoted in Financial Times,1996). This statement is supported by a recent report from Booz Allen & Hamilton (Warner, 1996) that claims the Internet poses a very serious threat both to the customer base of the traditional banking of oligopoly and its profits. Indeed, the online banking has prompted many banks to rethink their strategies in order to stay competitive. Customers today are demanding much more than banking services. They seek new levels of convenience and flexibility (Brich, 1997); (Lagoutte, 1996) on top of the powerful and easy to use financial management tools and products and services that traditional retail banking could not offer. Online banking has allowed banks and financial institutions to provide these services by exploiting an extensive public network infrastructure (Ternullo, 1997).

1.2 PROBLEM STATEMENT

Ever since the introduction of internet banking in United States of America (USA) in the early 1990s, it has influenced the rest of the banking world. Online banking is an innovation in banking that combines product of e-commerce in the field of banking and financial services which benefits consumers. As stated by (Saffu, 2008), there is an increase in applications of e-commerce in businesses in the past ten years. The benefits of e-commerce include reduction in cost, increasing business opportunities, reducing lead time and providing a more personalized service to the consumers (Turban, 2008). One e-commerce tool that is being adopted by the banking industry is online banking or e-banking. IT tools such as online banking have provided an improvement in services

among the banking industry (Dawes, 1998). It is projected that 84% of banks are expected to offer Internet banking to their customers by 2011 (Bradley, 2003). A survey completed by the Independent Community Bankers of America in 2005, found that banks with less than one billion dollars in total assets indicates that 75% of those banks currently provide this service. However, Internet banking is only effective for a bank if its customers adopt it and use it. In 2001, the Pew Internet & American Life Project released a study titled "Asian Americans and the Internet: The Young and the Connected." This study reveals that English-speaking Asian Americans were more likely to use the Internet and were the most active users as compared to other ethnic groups, including White Americans. However, the study did not explain that why this is true. There are currently more than thousands of e-banking web sites all over the world (Gurau, 2002). Online banking has been widely implemented in many developed countries such as United States and those in Europe (Tero Pikkarainen, 2004), at the same time there is a growing trend in the adoption of online banking by banks in developing countries too (Gurau, 2002). Malaysia as a developing country, has been growing rapidly in recent years. Online banking has been introduced in Malaysia in June 2000 with a strong approval from Bank Negara Malaysia (BNM) but confine to the local banks only. Hence, in 2002 the facility was extended to foreign owned banks too. As of January, 2008 there were 23 banks offering online banking facilities in addition to their traditional services. Hence, BNM has provided. 'Minimum Guidelines on the Provision of online Banking Services by Licensed Banking Institutions' (MGIB) 2000 modeled after the Basel Committee on Banking Supervision (BCBS) recommendations. (Radhakrishna, 2009)

BNM defines online banking as the service that allows consumers to perform banking transactions using a computer with an Internet connection. These transactions can include checking the balance in bank account, transferring funds between accounts, and bill paying. In order to explain the consumer's willingness to change his/her transactional behavior and the decision to adopt online banking, researchers from marketing and information system alike (e.g. (Cheng, 2006);(Lai, 2005); (Wang, 2003)) rely mainly on the Technology Acceptance Model (Davis F,1989). Nevertheless, all these studies concur that the TAM cannot sufficiently explain the consumer's decision to adopt online banking, probably because the use of the TAM in the study of online banking reflects a focus on the technological aspects of online banking adoption but neglects other parameters (e.g. social, psychological) that may also influence the adoption decision. Another interesting theoretical framework that incorporate such parameters are the five innovation attributes suggested by (Rogers,1962) in Diffusion of Innovations – DoI. Incorporating two of the promising theoretical framework will describe more complex innovation adoption phenomena, like online banking. In Malaysia, two important studies namely (Ramayah, 2003) and (Guriting P. a., 2006) have investigated Internet banking acceptance in Pulau Pinang and Kota Kinabalu, respectively. However there is a proof that the study in Internet banking is remained inconclusive. Indeed, the present study uses different factors, although TAM is utilized as similar as what used by (Guriting P. N., 2006). It is then still important for the current study explores online banking from the different angle compared to (Ramayah ,2003) and (Guriting P. N., 2006). Furthermore, previous studies on online banking range from (Eriksson, 2005) study in Estonia, (Tero Pikkarainen, 2004) study in Finland, (Wang, 2003) study in Taiwan and (Tan M. T.,

2000) study in Singapore. Apparently, these prior studies on online banking acceptance factors have reported mixed results, which have raised a difficulty in understanding the online banking acceptance factors. The reasons of this are because different factors employed that lead online banking adoption in the mentioned studies. Generally, there is still a room for the current study to explore online banking acceptance factor in Malaysia especially in Klang valley and Seremban area.

1.3 RESEARCH QUESTIONS

The study attempts to address four research questions.

The first research question is to identify what are the most significant and least significant antecedents to a consumer's belief (Perceived Usefulness, Perceived ease of use, Perceived enjoyment, Perceived Reliability, Triability, Convenience, Information on online banking, Security and privacy, Trust, Quality of Internet connections, Demographic) in the adoption of online banking?

Second research question is to identify the relationship among the independent variable in predicting consumers' adoption of online banking.

The third research question is to identify what are the demographic characteristics (Education, Income, Age, and Gender) that have significant influence in the decision to adopt an online banking within the financial services industry.

Finally, the fourth research question is to empirically identify how does the attitude towards online usage influence the behavior of the users to adopt the online activities?

1.4 OBJECTIVE OF THE STUDY

The purpose of this research is to investigate and understand the factors affecting adoption of online banking services in Malaysia. With this intension, the report is aim to achieve the following objectives:-

1. To identify what is most /least influencing factor (s) that contributes to the acceptance of online banking.
2. To identify whether there is any relationship among the influencing factor (s) which contributes to the acceptance of online banking.
3. To identify which are the demographic factors (Education, Income, Age, and Gender) influencing the adoption of online banking.

1.5 STRUCTURE OF THE STUDY

This paper is divided into six parts. The first and second part contains the introduction and the literature review on theories that can be used to explain online banking and information systems acceptance in Malaysia; as well as the critical factors which may have significant impact on the acceptance of online banking will be discussed too. The third part presents the research methodology used in this work. The fourth part comprises

of the results and analysis. The final part consists of the discussion, conclusions and practical implications of the research.

CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

In this day and age, many organizations are implementing e-business in their businesses as a part of their business strategy to stay competitive in the business environment. Together with the development of online facilities, banking environment should provide online banking services to their customers to run their daily operations (Alain, 2010).