



Probability of Adoption of Internet Banking

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ABSTRACT

In this paper, we shows practical implications for banks that are currently offering Internet banking services as well as banks that are planning to offer such services. Banks offering Internet banking services should create awareness regarding fears of privacy and security risks. Educate potential customers about the relative advantages of using Internet banking services.

Keywords— Banks, Finance services, IT

I. INTRODUCTION

Banking has always been a highly information intensive activity that relies heavily on information technology (IT) to acquire, process and deliver the information to all relevant users. Not only is IT critical in the processing of information, it provides a way for the banks to differentiate their products and services. Banks find that they have to constantly innovate and update to retain their demanding and discerning customers and to 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 the Internet. The rapid growth of the Internet has presented a new host of opportunities as well as threats to business. Today, the Internet is well on its way to become a full-fledged delivery and distribution channel and among the consumer-oriented applications riding at the forefront of this evolution are electronic financial products and services. With the rapid diffusion of the 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 will revolutionize the way banks operate, deliver, and compete against one another, especially when competitive

advantages of traditional branch networks are eroding rapidly.

Indeed, the emergence of Internet banking has prompted many banks to rethink their IT strategies in order to stay competitive. Customers today are demanding much more from banking services. They want new levels of convenience and flexibility on top of powerful and easy to use financial management tools and products and services that traditional retail banking could not offer. Internet banking has allowed banks and financial institutions to provide these services by exploiting an extensive public network infrastructure. Internet banking will recede in importance as a strategic application to become a competitive necessity that must be adopted by most if not all banking and financial institutions. Internet banking allows customers to perform a wide range of banking transactions electronically via the bank's Website. When first introduced, Internet banking was used mainly as an information presentation medium in which banks marketed their products and services on their Websites. With the development of asynchronous technologies and secured electronic transaction technologies, however, more banks have come forward to use Internet banking both as a transactional as well as an informational medium. As a result, registered Internet banking users can now perform common banking transactions such as paying bills, transferring funds, printing statements, and inquiring about account balances. Internet banking has evolved into a "one stop service and information unit" that promises great benefits to both banks and consumers. Internet banking services are crucial for long-term survival of banks in the world of electronic commerce. The market for Internet banking is forecast to grow sharply in the next few years, affecting the competitive advantage enjoyed by traditional branch banks. From the consumers' perspective, Internet banking provides a very convenient and effective approach to manage one's finances as it is easily accessible 24 hours a day, and seven days a week. Besides, the information is current. For corporate customers, sophisticated cash management packages offered through Internet banking

provide them with up to the minute information, allowing for timely funds management decisions (Margaret Tan and Thompson Teo, 2000). The number of individuals utilizing internet services has increased considerably. In 2006, about 12% of the 38.5 million internet users in India were banking online and the figure for online banking was estimated to rise to 16 million by 2007 - 08. The internet population itself is set to grow to 100 million by 2007 - 08 (Saurabh Srivastava, 2008). The main aim of the study is to empirically analyze the impact of selected variables on the probability of internet adoption.

II. METHODOLOGY

A total of 100 pre-tested questionnaires were distributed to bank customers in Coimbatore city. Random sampling technique was adopted. Out of the 100 respondents 50 adopted internet banking and 50 were non-adopters. Personal interview method was adopted. Logistic

regression was performed to assess the probability of the respondent to adopt internet banking.

III. FINDINGS

The sample units were categorized as respondents who adopted internet banking facilities and respondents who prefer other alternatives. As the determinants of internet adoption, the following variables gender, age, education, occupation, income, marital status, frequency of visits to bank, risk averter, computer literacy and internet access were considered. These socio-economic and technological capacity indicators were examined to analyze the effect on the dependent variable, which is the adoption of internet banking. Logistic regression method was used to estimate the probability of a bank customer in adopting internet banking. As the dependent variable is categorized in nature with the adopters taking the value of 'one' and non-adopters 'zero' logistic regression equation was estimated and are given in Table – 1.

Table -1
Probability of Adopting Internet Banking

Variables	β	Significance	Exp (β)
Gender	0.273	0.695	1.315
Age	0.026	0.512	1.026
Education	0.624	0.092*	1.868
Occupation	0.703	0.009*	2.022
Income	0.000	0.117	1.000
Marital status	-0.921	0.171	0.397
Frequency	-0.495	0.017*	0.608
Risk averter	-0.444	0.357	0.640
Computer literacy	0.507	0.424	1.662
Internet access	1.120	0.024*	3.068
Cox and Snell R square			0.263
Nagelkerke R square			0.351

*Significant at all levels.

Source: Estimates based on field survey

The model was significantly reliable (chi-square=30.789, df=9, p<0.0005). This model accounted for between 26% and 35% of the variance in internet adoption status. The classification table, which summarizes the results of the prediction about the adopter or not based on the selected variables, revealed that the model could correctly predict 77% of the adopter and 77% of the non-adopter. Overall the model predicts 77% of the probability of adopting internet banking correctly. Adoption of internet banking is positively related to education, occupation and internet access but negatively related to frequency of visit to the bank branch. All the above variables were statistically significant. From the exponential values of b's it could be inferred that with increase in educational level the tendency to adopt internet banking also increased. For every increase in education

level the odds of adopting internet banking increases by 1.868. Similarly, with better occupation the odds of adopting internet banking increased by 2.022. The relationship between decision to adopt internet banking and internet access is one of the most important variables. Internet access is positively related with the likelihood to adopt internet banking at 0.05 level of significance. The odds for respondent having internet access adopting internet banking were 3.068 higher than respondents without internet access. The odds for respondents who are frequent visitor to the bank branch, adopting internet banking is -0.495 times lower than respondents who are not frequent visitors to bank branch. If the number of visits to the bank branch increases by one time, the odds of adopting internet banking decreases by 0.608. In the case of variables like gender, age, income and computer literacy

are positive but statistically insignificant. Marital status and risk averter were negative and statistically insignificant.

IV. CONCLUSION

This study holds practical implications for banks that are currently offering Internet banking services as well as banks that are planning to offer such services. Banks offering Internet banking services should create awareness regarding fears of privacy and security risks. Educate potential customers about the relative advantages of using Internet banking services. To instill confidence and enhance self-efficacy in using Internet banking services, demonstrations could be made at bank branches to

showcase the user-friendliness of such services. Such initiatives will help customers to be more familiar with the bank and its Internet banking services, an important criterion in helping potential adopters select the Internet banking.

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