

# Effects of internet on banking research paper examples

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## **Effects of Internet on Banking**

Banking industry has undergone profound changes during the last decade. The most obvious change is the increasing use of internet technology in the sector. Use of internet technology is essential in bringing succinct change to banking operations in the banking industry. An overview speculates that the internet has destroyed old models of how banks services are developed and delivered (Malhotra & Singh 43). The widespread availability of internet banking has affected the way in which banks offer a variety of financial services. This has an end term impact on the resulting economic performance of banks. This research study seeks to look at the impact of global finances relying on internet banking.

Internet banking has led to the provision of necessary resources required to achieve a higher efficiency in the banking sector. Furthermore, it offers practical ways of controlling operations and reduces costs since it has replaced labour intensive banking and paper based methodologies with automated processes, which ensures increase in profitability and productivity. Researchers are yet to produce remarkable evidence regarding these potential changes. Nonetheless, researches carried out in the recent past have shown that internet banking has not yet had an independent effect on profitability of the banking. This, however, is subject to change as internet use becomes widespread.

Development of internet banking has been beneficial to developing countries as it provides leapfrogging opportunities. Although these countries have insufficient financial systems and structures, they benefit from their access to modern technology when constructing their financial intermediation

infrastructures. Internet banking allows the developing countries establish financial systems without having to first create a practical financial infrastructure. Internet banking lowers processing costs as it switches the cost to consumers thus it is reasonable. Therefore, internet banking allows developing countries access appropriate information and transform it into modern services and products crucial to competing in the global markets. This ensures sustained economic development of the developing countries. Use of internet technology has enhanced customer satisfaction as the use of internet as a delivery channel for banking services enables them perform various banking transactions. It provides them with an opportunity to conduct banking transactions at their own convenience (Berry 34). Internet banking provides twenty-four hour availability, and customers do not have to wait for banks to open so that they can carry out banking transactions. Moreover, internet banking is much cheaper than phone and branch transactions hence more convenient. Internet banking further strengthens customer loyalty to their banks. It ensures twenty-four hour online availability customer support to solve problems encountered by customers at any hour. This is can also be attributed to erosion of the “ endowment effect” which came with internet banking. As various banks, fight to retain and regain their customer base, deposits will go elsewhere. This does not favor banks as it increases their cost of funds possibly making their business less viable.

There exist risks associated with internet banking. Poor internet banking planning and investment decisions on investment has increased strategic risks of financial institution (Weninger 1539). As it is a relatively new

concept, internet banking has resulted in misunderstandings amongst senior banking institution decision makers based on its implications and potentials. This is because persons with technological skills campaign for its use without considering those with banking skills. Furthermore, they are expensive and may not recoup their cost. Initially, internet banking was speculated to attract type of customers with unexpected implications on existing business lines, which banks wanted or expected, but this has not turned out as it was expected.

Internet banking has rendered existing traditional card models inappropriate (William 25). This has resulted in higher rejection rates, and highly inflated pricing to cover risks involved. Banks are no longer able to assess the quality of their credits services, nature, and quality of collateral that are offered at locations they are unfamiliar with, particularly overseas. There has been an increased banking security breach due to internet banking. They entail theft/fraud of financial information, defacement of websites by “ casual hackers” and flaws in system design. The mentioned have potentially serious legal, financial, and reputational implications.

Internet portal providers have attracted more shares of banking profits due to development of internet banking technology. Internets banking technology requires the flexibility to enable adding and amending of contents in real-time as internet banking is business oriented rather than IT driven thus internet portal providers are employed to optimize cross sale opportunities thereby improving customer experience.

Banks should henceforth come up with strategies putting into consideration the effects of internet banking alongside the effective processes for

measuring performance against it. These will reduce exposure to business risks and in case of occurrence of such risks be able to manage them accordingly.

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