

# Electronic banking and profitability of financial institutions essay sample

[Literature](#), [Russian Literature](#)



## Background of the study

In recent times, there has been a keen competition in the delivery of financial service or products which has resulted in financial institutions, especially banks, to developing and making use of alternative delivery channels to enhance their activities, increase profitability and in all, gain competitive advantage. These activities may include: retrieving an account balance, money transfers to and from a user's accounts, retrieving an account history. Some institutions also allow services such as stock market transactions, and the submission of standardized accounting payment files for transfers to third parties (Claessens et al., 2002). This has generated the use of alternative technological means or channels. The most recently introduced delivery channel is online or electronic banking also known as e-banking (Daniel & Storey, 1997). An online or electronic banking system provides easy means of accessing and processing financial transactions.

Banks and other financial institutions have moved to e-banking in their efforts to cut costs while maintaining reliable customer service (Kolodinsky and Hogarth, 2001). It is evident that e-banking has been embraced by banks and other financial institutions in developed and developing countries. Different kinds of electronic banking systems emerge, as technology and other services or products evolves, each bringing a new dimension to the interaction between user and bank. They include Automated Teller Machine (ATM), mobile and Internet (online) banking, electronic funds transfer, direct bill payments and credit card (Gikandi and Bloor, 2010; Liaoa and Cheung, 2002). Among these E-banking facilities, the Automated Teller Machine

(ATM) is the first well-known and widely adopted system that was introduced to facilitate the user access to banking activities (Nyangosi et al. 2009; Claessens et al., 2002)

In Ghana, standard chartered bank is one of the first banks which introduced online or e-banking into the financial system. The bank has recently introduced its ' iBanking' facility which help customers to perform banking activities right away the comfort of their room or office (www. onlinebanksguide. com). Most banks are also adopting e-banking system which is state - of- the art. In addition, many banks are making what seem like huge investments in technology to maintain and upgrade their infrastructure, in order not only to provide new electronic information based services, but also to manage their risk positions and pricing (Abor, 2004). The earliest forms of electronic and communications technologies used mainly in Ghanaian banking offices were automation devices. However, Telephones, telex and facsimile were employed to speed up and make the process of servicing clients more efficient (Abor, 2004).

## PROBLEM STATEMENT

The increased adoption and penetration of Internet has recently redefined the playground for financial institutions. They are now offering their services mainly through their internet branches. Traditional banking is characterized by physical decentralization, with branches scattered around populated areas to give customers easy geographical access (Ainin et al., 2005). On the other hand, E- Banking does away with the need for most visits to the bank.

E-banking is characterized with some advantages to the institutions and customers such as low per unit operating cost, convenience to customers since it does not require any physical premises and low incidence of errors. However, the effect of online banking or e-banking on bank performance particularly on the bank profitability has remained an issue with little or no study in this area. The introduction of electronic banking is one main advancement in technology that has been adopted by the financial institutions. Despite all these merits, it is not very clear as to the effects of e-banking on the profitability of these financial institutions. This study attempts to identify the effects of e-banking on profitability of financial institutions.

### Research Objectives

General objective of the study is to identify the effects of e-banking on the profitability of financial institutions. The specific objectives are:

1. To identify why e-banking was adopted by financial institutions in Ghana.
2. To ascertain why e-banking is preferred by the financial institutions to the traditional banking.
3. To ascertain how e-banking contribute to the profitability (that is the Returns on equity, return in asset and margin) of financial institutions. These objectives provide the basis for the research questions 1. Why was e-banking adopted in financial institutions in Ghana? 2. Why is e-banking preferred by the financial institutions to the traditional banking? 3. How does e-banking contribute to the profitability (that is the

Returns on equity (ROE), return in asset (ROA) and Margin) of financial institutions? Significance of the study

1. The study will contribute to the existing knowledge on the effect of e-banking on profitability on financial institutions. 2. It will help in modernizing the operation of the Central bank to support automated clearing service and update supervisory and regulatory rules for absorbing ICT-based banking. 3. It will be recommended to the commercial banks in creating an awareness campaign through workshop and seminar on the importance and business value of e-banking in financial institutions.

4. It will help the Central Bank to work out an efficient information infrastructure for banks using different technology to ensure network connectivity among the commercial banks and financial institutions.

## METHODOLOGY

The fundamental sources of data will be primary and secondary. The primary data will be wholly captured from selected branches of standard chartered bank through the administration of questionnaires and interviews with some key personnel of the bank. The secondary data will be collected from the internet, brochures, journals and other research works related to our topic.

### Research Design

In this study, the researcher adopted a case study approach because it provided in-depth information to address the objectives. The proposed research will be a quantitative study that depicts the effects of e-banking on

profitability of financial institutions (2000-2011). A cross - sectional data will be collected for the study which will be made up of both primary and secondary data. Questionnaires and interviews will be the means by which data will be collected. Regression analysis will be the mode in which data collected will be analyzed.

### Target Population

This research will be carried out in financial institutions with standard chartered bank, a depository financial institution in Ghana as our case to arrive at our findings. The members of the top management of this organization will represent the population for the study.

### Sample Frame

The Head- Office and two other branches will be selected out of the total of twenty branches.

### Data Collection

The data will be derived from both primary and secondary sources. Both primary and secondary data will be used for the study. Primary data will be obtained with the help of a structured questionnaire, which will be designed to gather qualitative data and will feature both open-ended and closed questions. Face-to-face interviews will also be used to collect individual concern on e-banking. Secondary data will be collected from financial statements of financial institutions (standard chartered bank Ghana), articles, course literature, and bank of Ghana annual reports on e-banking.

## Time frame

The research work is expected to take about 6 months to arrive at our findings and conclusion. Month October November December January February March October

## Introduction

November Literature review

December Methodology

January Data analysis

February Results and discursion

March Conclusions. Findings and recommendation

## Hypothesis

Ho: E-banking has an effect on the profitability of financial institutions.

Ha: E-banking has no effect on the profitability of financial institutions.

## Analysis of Data

The research team will collect relevant data on effect of e-banking on profitability with both qualitative and quantitative nature. Quantitative analysis involves regression and correlation analysis of nominal data while qualitative analysis focuses on measurement of subjective data and usually involves conducting interviews. The Statistical Package for Social Sciences (SPSS) and Microsoft Excel will be used to process, analyze, and interpret expository data.

### Limitation of Study

The researchers will be expecting to face some challenges.

- This study will be conducted with standard chartered bank as a case, among the financial institution due to some constraints such as financial constraints, geographical constraints.
- We anticipate a reluctance on the part of targeted respondents to volunteer information needed for the study

.

### Scope of the study

The study will be conducted at some selected standard chartered bank branches in Accra. These branches will be selected based on the extensive use of E-banking facilities or products and their proximity to the researcher. The study laid emphasis on effects of E-banking on the profitability of financial institutions in Ghana.

### Organization of the study

The research report was organized into five chapters: Chapter one will focus on the background of the study, problem statement, objectives and justification of the study. In chapter two, a literatures review will be undertaken to gather relevant information concerning E-banking. In chapter three, detail of methodology will be outlined. It will include the study design, sampling, sampling technique and data analysis. Chapter four will contain results and discussion from the study supported with findings from other



research works. Chapter five will also focus on main findings, conclusions and recommendations of the study.

## LITERATURE REVIEW

This part of the proposed research will be made up of theoretical and empirical literature. The gap that exists between the theoretical and empirical literature will help to identify the problem that exist in this area and will establish the need for the research. The literature review will focus mainly on e-banking and profitability of financial institutions and some challenges faced by these financial institutions with the adoption of e-banking and the process of integrating the system into the operations compared to the traditional system. it will also define and explain some key terms in the research study

## REFERENCES:

1. Abor, J. (2004). Technological Innovations and Banking in Ghana: An evaluation of customers' perceptions. Accra, University of Ghana, Legon.
2. Ainin, S., Lim C. H., & Wee, A. (2005). Prospect and Challenges of E-banking in Malaysia. *The Electronic Journal on Information Systems in Developing Countries*. . 3: 1, pp. 5-19.
3. Basel Committee on Banking Supervision (2001). Risk management principles for electronic banking. Bank for International Settlements.
4. Claessens, J., Dem. V., De Cock, D., Preneel, B. & Vandewalle. J. (2002). On the security of todays online electronic banking systems. *Computers & Security*, Vol. 21: 3: 257-269
5. Daniel, E., & Storey, C. (1997). On-line banking: Strategic and management challenges

pergamon. PII: 4-5 (S0024-63010007). 6. Gikandi J. W., & Bloor, C. (2010). Adoption and effectiveness of electronic banking in Kenya: Electronic commerce research and applications. 9: 277-282 helpwithmybank.org/dictionary/index.html accessed on 30/3/2011 7. <http://www.onlinebanksguide.com/standard-chartered-bank/ghana.html> 8. Kolodinsky, J., & Hogarth, J. M. (2001). The adoption of electronic banking technologies by American consumers. *Consumer Interests Annual*, 47, 3: 1-9. 9. Nyangosi, R., Arora, J. S., & Sing, S. (2009). The evolution of e-banking: a study of Indian and Kenyan technology awareness. *International Journal of Electronic Finance*. 3, 2: 149-169.