

# [Role of banks in the economic development of a country](https://assignbuster.com/role-of-banks-in-the-economic-development-of-a-country/)

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The banking industries play a significant role in supporting economic development through efficient financial services (Dube et. al, 2009). Internet banking (e-banking) involves the execution of a wide range of banking related services over the web or network connected to the customer’s bank (Steven, 2002).

The e-banking is transforming the banking and financial industry in terms of the nature of core products or services and the way these are packaged, proposed, delivered and consumed. It is an invaluable and powerful tool driving development, supporting growth, promoting innovation and enhancing competitiveness (Gupta, 2008); (Kamel, 2005).

As study of (Kricks, 2009) postulates that e-banking is the developing tendency to provide superior service, real time right to use and achieving cost reduction in an effort to secure maximum effectual banking. E-banking has replaced the traditional banking models (Ovia, 2001; Gonzalez, 2008).

The study that would be conducted by (Julie, Bryn & Irene, 2010), Vital measures of financial performance include capital adequacy and ratios such as profitability, liquidity, solvency and efficiency ratios Specific to banks’ financial performance, measures such as profitability ratios, capital adequacy, liquidity ratio and asset quality are used as vital indicators of performance

The study conducted as per (Kolodinsky, Hogarth & Hilgert, 2004), the emergence of e-banking has significantly redefined and transformed banks’ operationsTechnologyis viewed as the major driving force in firms’ performance success.

Ethiopian commercial banks continue to offer most of their banking transactions using electronic means. Electroniccommunicationmeans are particularly coming to the forefront. These are more convenient, faster and often cheaper for clients. Banking experience shows it is suitable to use combinations of several communication means, depending on individual segments, clients and types of operations, products and situations. Electronic banking is a service that specifically uses electronic communication forms. Electronic banking can be divided on the basis of the instruments used; telephone connection, personal computers, means of payment (bank cards) and self-service zones (NBE, 2015).

The study will be inspired by the continued growth of technology within the banking industry and how E-banking offers convenient access, secure and round the clock banking options. In an information-driven business climate like that of the banking industry, those banks that have not embraced online banking face a serious competitive challenge. The research study will be emphasizes on role e-banking on financial performance of Ethiopia’s commercial banks

## Statement of the problem

According to Banking Business Proclamation No. 592/2008 in Ethiopia. All banks have to be licensed by the countries’ financial regulatory body, the National Bank of Ethiopia to engage in banking business. Banking is a rapidly growing industry in Ethiopia. Currently there are 17 commercial banks in Ethiopia, one state owned and 16 private. Also others banks on process of establishments such as Gada bank, Amhara bank and Hijra bank.  Several recent studies have also explored in great detail the resultant impact of technology on the banking sector.

As study of (Shuqair, 2003) in his research study of Jordanian banks that have adopted the use of electronic banking, found out that high costs in banking sector are incurred in the acquisition of electronic infrastructure and the training of employees. Therefore electronic banking service in the short run will negatively impact on the bank’s profitability.

According to (Girma, 2016) conducted a research about the impact of ICT on the performance of Ethiopian banking industry using secondary data over the period 2010- 2014. The finding shows that the ICT, ATM and POS have no statistically significant effect on return on asset on commercial banks in Ethiopia.

Moreover the study result showed that the POS, ICT and number of branches have negative effect on return on asset on commercial banks in Ethiopia. As study of (Abaenewe et al., 2013) Adoption of electronic banking has positively and significantly improved the returns on equity (ROE) of Nigerian banks.

However, in Ethiopia as far as the knowledge of the researcher is concerned, there are few research conducted on adoption of e-banking (Gardachew 2010) and (Abenet, 2010), Challenges and Opportunities in adapting e-banking (Abreham, 2012), customer satisfaction to measure the efficiency of e-banking (Sintayehu, 2015) are conducted.

There results of the studies in general agreed that e-banking in Ethiopia is slow and less adaptable. The study conducted by (Solomon, 2016) impact of electronic banking on bank performance also has a limited focus on the subject, ignoring the impact of mobile banking and agent banking on bank financial performance. It makes and needs the researcher to carry out a study from Ethiopian perspective to establish the roles of e-Banking on banks financial performance

### Research Questions

Based on the above statement of the problems a research question will be develop to answer that; what is the role of e-banking service on the financial performance of banks?

* What is the role of ATM on the financial performance of commercial banks?
* What is the role of Internet banking on the financial performance of commercial banks?
* What is the role of mobile banking on the financial performance of commercial banks?
* What is the role bank size on the financial performance of commercial banks?
* The role of agent banking on the financial performance of commercial banks?

### General Objective of the study

Objective study will be to study the role of electronic banking service on financial performance of commercial banks in Ethiopia.

Specific Objectives

* The roles of ATM on the financial performance of commercial banks
* The roles of Internet banking on the financial performance of commercial banks
* The roles of mobile banking on the financial performance of commercial banks
* The roles bank size on the financial performance of commercial banks
* The role of agent banking on the financial performance of commercial banks

Research Hypothesis

In order to be more formal statement of research the researcher used to employs hypotheses. The null hypotheses, E- banking no significant relationship on performance of commercial banks in Ethiopia. Alternative hypotheses as follow’s.

1. Hypothesis 1: Number of ATM has positive and significant role on financial performance of commercial banks in Ethiopia,
2. Hypothesis 2: Internet banking has positive and significant role on financial performance of commercial bank in Ethiopia,
3. Hypothesis 3: Mobile banking has positive and significant role on financial performance of commercial banks in Ethiopia,
4. Hypothesis 4: Bank size has positive and significant role on financial performance of commercial banks in Ethiopia,
5. Hypothesis 5: Agent banking has positive and significant role on financial performance of commercial banks in Ethiopia,

Significance of the study

The study will be beneficial to a diverse group. Foremost, it will assist the regulators to mould regulations in place to address the various aspects of bank operations through gaining a deeper understanding of the role of electronic banking.

Secondly, managers of commercial banks will obtain a wider and deeper insight into the effect of online banking on bank’s financial performance as well as recommendations on areas they can improve on in electronic banking. Finally, the study helps otheracademicresearchers as a source of reference and as a stepping stone for those who want to make further study on the area afterwards.

Organization of the paper

The study paper will be organized into five chapters. Chapter one introductions of the study, chapter two literature reviews, and Chapter three research design and methodology and analysis and data interpretations will be present in chapter four. The final is chapter five will be summary, Conclusion and recommendation of the study

Scope of the study

The scope of the study will be limited to commercial Banks in Ethiopia pertaining electronic banking on banks financial performance. To study the roles of electronic banking on financial performance of commercial banks in Ethiopia. And ten banks are considered for the study regarding adoption of electronic banking service. Three years data will be used from 2016-2018.