

Analysis of online banking industry

Business



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According to King, McKay, Marshall, Lee and Viehland (2008) online banking or electronic banking (e-banking) includes various banking activities conducted via the Internet from home, business, or on the road opposed to at a physical bank location. This paper shall compare and contrast both the online and offline retail environment for banking services.

Internet banking offers great opportunities to the financial-services industry, including:

- a huge potential customer base
- large economies of scale in investment
- the possibility for services to be delivered using standardised modular software
- easy management of software
- a common browser front end
- the possibility to be equipped with good security protocols
- the easy application of pre-packaged communications software, enabling customers to communicate directly with the bank
- instant access to the bank for all connected customers
- significant prospects for development and for adding value cheaply.

Source: Keynote Report (2009) Online banking presents many advantages in comparison the 'bricks and mortar' offline environment.

In terms of placement consumers can access banking facilities from the comfort of their own home or workplace as opposed to visiting a branch on the high street. Online banking is extremely time-saving providing instant access to online services. It reduces and in some cases even completely eradicates the need to contact a local branch to make transactions.

Consumers can use 'e-banking' to check their accounts, pay bills online, transfer funds from one account to another and in some countries even secure a loan electronically.

In today's fast moving society time is money.

Customer not only saves valuable time by avoiding a trip to the branch but also may save on any travel expenses they may have incurred embarking on a trip to the local branch. Another benefit of e-banking is that's the system is accessible 24 hours a day, 365 days a year. Funds can be transferred at any time of the day, whenever the customer needs not constricted to the sometimes inconvenient opening hours of the high street branch. This freedom gives the customer added value.

Internet banking is both cost effective for the customer and the banking institution.

Electronic transactions cost much less than paper based transactions. With fewer customers using the off-line retail environments there can be a reduction in the need for staff to engage in face-to-face interactions and less administration costs through the reduction of paperwork. In the online environment the customer is in control of his or her own banking transactions. The customer can decide when and where they make transactions or check their account details. The customer has the peace of mind in being in control of their own finances.

For example, instead of waiting for monthly statements, customers can keep a close eye on their funds and alert the bank promptly if there are any discrepancies with their account. This responsibility of managing accounts online can be seen as a daunting experience for certain customers, especially if they are not I. T. literate. Some customers prefer to leave the accountability of their finance to the staff present in the offline environment

and take comfort in the fact that the physical support in hand should anything go wrong.

In removing the support of a member of staff that is associated with using an off-line medium, the online environment requires considerable trust from the customers to mitigate risk.

Trust indicates a positive belief about the perceived reliability of, dependability of and confidence in a person, object or process (Rempel, Holmes and Zanna 1985). Ciancutti and Steding (2000) postulate that companies that have earned trust from their public have indeed created a competitive advantage. It is the issue of trust that creates a problem for the online banking environment. Customers are wary of disclosing personal details over the Internet.

It is difficult for banks to portray online security to customers who are unfamiliar to the technology and the concept of the Internet.

The sites must be user friendly and convey a feeling of security. According to Zakaria (2003) even though Internet banking has been long established, one of the most important factors that may be slowing its progression is customer's concern for security of financial transactions over the Internet. In a recent Key Note consumer survey (conducted in 2008) into attitudes towards electronic banking, 40% of respondents said that they liked to manage their money using the Internet.

The survey found men were slightly more likely than women to use this channel. 51.3% of respondents postulated that they were concerned about the security aspects of electronic banking and 25.

1% of the sample would not trust an electronic bank with their money (Source: Key Note Report 2008). Due to the nature of the online environment it is difficult for banks to build trust and relationships with their customers. The Internet is extremely impersonal due to its global audience, the bricks and mortar location of the local branch with a smiling advisor is much more inviting in comparison to a cold lifeless computer screen.

Also the learning process involved in using e-banking can be daunting, customers must invest their time and effort into learning more to use and navigate their way around the sites. Internet banking can also be time consuming to set up and registration numbers and access codes can be misplaced, stolen or forgotten.

Although these codes, PIN numbers and other information also must be retained for offline banking as well and the same problems arise. In relation to the online environment there is also the issue of when the bank up-grades the website or adds new features.

Customer can feel agitated by this as they just managed to master the current system. The off line environment for banking does have noted benefits over the online medium. Its main strengths feed on customer's unfamiliarity with the Internet and their distrust in technology.

The offline environment provides customers with a personal face-to-face service, something which adds significant value to the service. Some customers may feel that through paying bank charges they are entitled to a personalised service to assist their customer needs.

Through interacting with staff customers are given reassurance and it is possible that certain queries can not be answered through an electronic medium. The offline environment also allows customers to keep physical copies of their monthly statements for example. Although online provides customers with the facility to view statements, they are only stored in the system for a relatively short period of time.

By adopting Porter's value chain analysis model to internet banking it is clear to see how the online environment is added value to the customer.

Porter (2001) has stipulated that there is no value added by the internet itself, however the internet should be incorporated into the businesses value chain. The value chain requires a comparison of all skills and resources the firm uses to perform each activity (Porter, 2001). Value chain analysis categorises the standard value adding activities of the company. The cost and value drivers are identified for each value adding activity and the definitive goal is to maximise value creation while keeping costs to a minimum.

The diagram below illustrates the value chain analysis model in relation to application of the Internet.

(Source: Porter, 2001) The online environment for banking creates the opportunity for banks to (as mentioned previously) to streamline their operations and cut back on branch staff. In theory this value saved by the company can then be transferred to their customers. Through using an online environment customers may be also able to have personalised marketing material sent to them directly via email regarding their account.

Customers may find this adds value to the service they receive from their bank and also the organisation has a cost effective direct marketing channel. The fact that the online banking service is available from any location, even from the customer's own home means this adds great value to the service.

The automated nature of the self-service e-banking websites means that even though the service is available on a 24-7 basis it is of no extra cost to the company. Although it is the self-service nature of the online environment that some customer feel detracts from the service they receive from their bank.

This cost effective medium is not always perceived as a positive from less computer literate customers. The online environment can add value by being as simple as possible to use with easy and efficient transactions. Also added security to the online environment could result in perceived added value by customers. They need to trust the Internet and the website enough to manage their finances online.

Internet banking can also offer more services to customer which is in turn added value. Special online discounts can be offered to customers for loans for example. Recommendations

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Unfamiliarity with the internet and the banking websites appears to be a major issue regarding the on-line environment. This could be addressed by providing customers with a free and efficient call centre service for technical back up and help. Many of the larger banks provide this service already.

Perhaps a 'demonstration' on how to use the site a number could be provided in the offline environment and a member of the bank's staff could talk them through the process step by step. This mixing of the online environment with the offline could make customers more confident in using the system at home.

A suggested recommendation would be to make the sites more user-friendly through use of voice prompts giving the customer the sensation that their own member of staff is on your computer giving it a more personal feel. The voice prompt could perhaps call the customer by their first name to make them feel as if they know the customer personally. This aids the problem of the cold screen to customer interface. Another issue concerning e-banking is security.

It is a definite disadvantage to those who are more conscious with their personal details.

Added security measures could be made to the on-line banking sites giving customer more peace of mind. Perhaps voice recognition could be introduced as technologies progress. The safer customers feel when they use the service the more they will both use it themselves and recommend it to other potential customers. In conclusion it would appear that on-line and off-line banking both have their advantages and disadvantages, but would appear <https://assignbuster.com/analysis-of-online-banking-industry/>

that e-banking is becoming increasingly popular due to its convenience alone.

The on-line environment may be cold and impersonal but it saves time money and energy.