

## New trends of online banking in Sri Lanka

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### Abstract

Expansion of broadband, 3G services and internet based services actively changed consumer behaviour in Sri Lankan customers. The purpose of providing online banking to reduce physical distance between modern world customers and bank. This study was carried out to identify new trends of internet banking, factors that caused the increase in on-line banking and study customer opinion on online banking. The study area was limited to Gampaha district. Random sampling method was used to choose survey sample. Sample size included 150 customers. Primary and secondary data were collected during the survey. Time series data were used to identify trends of online banking. This study was done using a questionnaire and conducting personal interviews. According to the research data, there are new trends to use online bill payments & money transfer facilities among Sri Lankan customers. Level of education, customer's reliability on internet banking, gender, age, & convenient of online banking services, can be identified as factors which are directly effect to the usage of internet banking. Among the selected group, 80% of customers have positive opinion on online banking. According to the data analysis, there is a slowly increasing growth of using online banking in Sri Lanka on time.

**Key words:** New trends, Online-banking, Customers, Reliability, Convenience

### Introduction

Online banking services were the distance banking services over electronic media from the early 1980s. This term became famous in late 1980s with using terminal, keyboard and monitor to access the banking system via phone line. Online banking is also known as “internet banking” or “web banking”. Online banking can be defined as, “The performance of banking activities via the internet. A good online bank will offer customers just about every service traditionally available through a local branch, including accepting deposits, paying interest on savings and providing an online bill payment system” (Investopedia dictionary). Internet services started in New York in 1981 at

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very first time. Citibank, Chase Manhattan, Chemical and Manufacturers Hanover banks offered home banking services using the videotext system. But it wasn't a popular concept. Because of the failure of videotext services. After late 1990s most of banks started to use Web-based banking as a strategic implementation. Because it diminished transaction costs, easier integration of services, interactive marketing capabilities, and other benefits that boost customer lists and profit margins. So banks use online services to maintain customers and loyalty largely in 1998 (The survey report of Pew research center of USA, 2013). Then customers slowly grew in world context. Today many banks offers internet banking with offering better interest rates & more extensive online banking features.

In Sri Lanka, Commercial banks introduced online banking in 1998s. In very first time only five local banks offered online banking facility. They only offered transactional level to local customers at that time. After spreading of online banking state banks also use online banking to compete with rivals. Today states banks and private banks used online banking services in wider range. They offered, Online banking, Mobile banking, E-Statements, Bill payments to provide convenient ways for customers to access bank services & facilities.

### **Review of literature**

It is important to review the published literature to establish a theoretical framework for the research and identify the relationship between online banking and other related areas.

G.S. Shergill and Bing Li (2008) identified privacy issues are connected closely with security issues. Banks not only need to ensure that private information will not be susceptible to hacking, but also need to guarantee that private information will not be used in ways the customer did not anticipate or expect. Indicated that a consumer would have more trust towards a web site with privacy policy programs than a web site without such programs when initially going to the site. G.S. Shergill and Bing Li revealed that privacy and preference of online banking have positive relationship. Accordance of the findings of Stephens W. Wang, Maxwell K. Hsu, Lou E. Pelton, and Danqing Xi (2014), there is a strong positive relationship between the privacy and the preference of online banking.

Bank of America conducted a survey on Mobile trends & banking behaviors among consumers across the country in 2014. According to that survey they

find out mobile banking platform has been increased more than 200 thousand customers per month, customers are using their mobile devices to log into their accounts over 165 million times per month, and making more than 4 million transfers per week between their accounts and to other people's accounts as well as to pay their bills.

According to the Syed Abdul, driven by new technologies, changing customer preferences, and increased competition, banks have taken to heavy investments in new distribution channels like advance automated teller machines, telephone systems, and on-line banking, one of the reasons for internet applications not to have picked up as expected so far have been the concerns about the security and lack of the legal framework related to such transactions (Syed Abdul Mannan, 2010). And also he revealed that all the respondents have acknowledged their awareness of the e-banking concepts (100%). But the response to the query whether their banks are providing it, he observed that 95.9% respondents have given positive response and 4.1% have given the negative response. Almost 92.1% of the respondents agree that the electronic services are more convenient and suitable in present life. On the other hand 7.9% respondents disagreed. It is also observed that 52% of respondents do agree to the fact that Indian customer feels shy, hesitant and keep away from using electronic banking transactions and 48% of the respondents disagreed with this statement and they think that Indian people are much comfortable in accessing the e-banking (Syed Abdul Mannan, 2010).

### **Problem statement**

According to the N.A.D.A.Nimasha, internet Banking has emerged as the most critical form of customer interaction, encompassing the structural changes required by the banks to compete within the financial markets. Technology advancement has modified fundamentals of marketing theories, particularly the banking sector. With the emergence of digital channels, banks are confronted with margin pressures and intense competition. In addition the customer's quest for personalized services has intensified with the implementing of internet banking. Service quality is a pre-requisite for customer satisfaction and in a virtual environment the task becomes even more challenging to banks (N.A.D.A.Nimasha, 2016). L.H.T.DE.S.Wicramasuriya revealed all the factors except perceived risk, desire for human interactions, and legal support issues are positively related to the adoption of internet banking while these three factors have negative effect (L.H.T.DE.S.Wicramasuriya, 2016). Online banking has identified as

one of the most significant e-commerce applications over the last few decades. However the usage level is less than its expectation in Sri Lanka. Perceived use of ease and perceived usefulness have identified as motivation factors to usage of online banking while security risk, financial risk, time risk, social risk and performance risk were identified as the demotivation factors to adoption of online banking facilities (Prasansha Kumari, 2016).

In Sri Lanka, its banking system always renew their services & introduce new facilities to their customers. But as a developing country they have been faced lots of problems & risk when they introduced online banking. Because of the attitudes of the traditional customer based, lack of technology & skills, large scale of basic capital, competition of foreign banks which registered in Sri Lanka, & etc. Deregulation has enabled a greater degree of competition. With the proliferation of internet expansion and computers usage, the electronic delivery of banking service has become ideal for banks to meet customer's expectations (Wai-ching poon, 2007). Public awareness of online banking among users has been increased and some people are ready to migrate to technology applications and some may not use the online banking systems in spite of their availability. Today customers looked into online banking systems and number of customers who is using online banking are growing in Sri Lanka. So it is important to study on the New Trends of Online Banking Usage to fill the gap that exists due to the lack of current knowledge.

### **Objective of the study**

The objective of the study is to identify the new trends of internet banking in Sri Lankan banking sector while identifying the factors that caused to decide the usage of online banking.

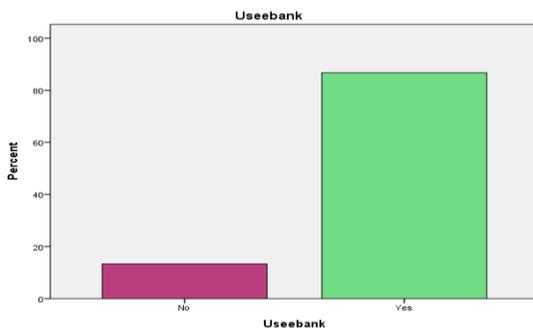
### **Methodology**

This analysis is based on primary data and secondary data. Qualitative & quantitative approaches are used to collect data. Random sampling method is used to choose survey sample. Time series data were used to identify trends of online banking. This study was done using a questionnaire and conducting personal interviews. Excel package & SPSS software used to process, scale & analyze the data. Descriptive statistic tools such as graphs, correlation and statistic tools such as models were used for the analysis.

### Usage of internet banking

Around 1994, banks saw the rising popularity of the internet as an opportunity to advertise their services. Initially, they used the internet as another brochure, without interaction with the customer. Early sites featured pictures of the bank's officers or buildings, and provided customers with maps of branches and ATM locations, phone numbers to call for further information and simple listings of products. In 1995, Wells Fargo was the first U.S.A. bank to add account services to its website, with other banks quickly following suit. That same year, Presidential became the first U.S. bank to open bank accounts over the internet. According to research by Online Banking Report, at the end of 1999 less than 0.4% of households in the U.S.A. were using online banking (Abdou, Hussein, John, Adewunmi, Pual, 2014). Today internet banking facilities typically have many features and capabilities in common, but also have some that are application specific. The common features fall broadly into several categories. According to the topic, it is important to analyze usage of internet banking in Sri Lanka.

Figure 1: Online banking usage



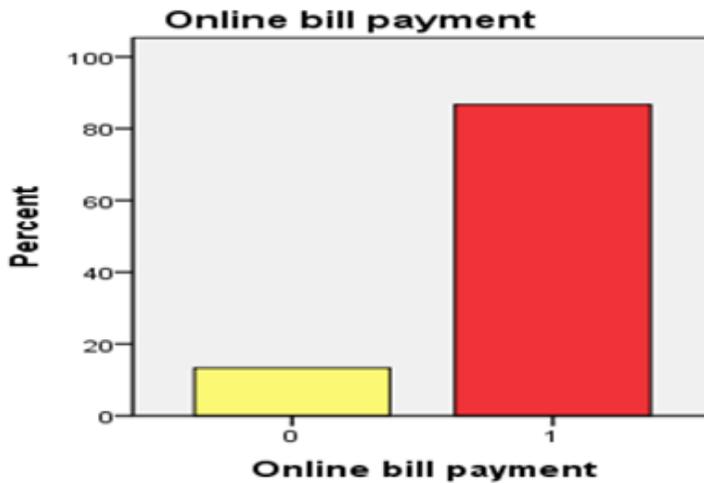
Source: Research data

According to the above diagram, 13.3% of customers didn't use online banking facility and 86.7% of customers used internet banking services in their day today life. When considering the spread of internet banking Sri Lankan banking sector turned to the transactional level from informational level of internet banking. This change offered wider range of facilities through internet banking such as international payments, mobile recharge, e-Statements, bill payments, money transferring, online purchasing, online booking and etc.

According research data 13.3% customers didn't use online bill payment service & 86.7% customers use this service. 26.7% customers didn't use &

73.3% customers use money transfer service which is provided through internet. Mobile recharge facility didn't use 76.7% customers & 23.3% customers use mobile recharge facility. 63.3% peoples' bank customers didn't use international payment feature. But 36.7% customers use this feature to fulfill international transaction. Online booking facility didn't use 66.7% customers & 33.3% customers use online booking facility for their convenient.

Figure 2: Usage of online bill payment



Source: Research data

Table 1: Usage of online bill payment

	Percent	Valid Percent	Cumulative Percent
Valid No	13.3	13.3	13.3
Yes	86.7	86.7	100.0
Total	100.0	100.0	

Source: Research data

According to the above facts and diagrams online bill payment is the most popular internet banking service among the online banking services which are provided by banks in Sri Lanka.

### The factors affecting on internet banking usage

Table 2: Convenient of online banking

		Percent	Valid Percent	Cumulative Percent
Valid	not much	10	10	10
	Much	6.7	6.7	16.7
	Middle	6.7	6.7	23.3
	Good	43.3	43.3	66.7
	Very much	33.3	33.3	100
	Total	100	100	

Source: Research data

The categorical variables are used to analyze qualitative data. Very much represented highly agreed and not much represented not highly agreed and so on. Customer's attitude on convenient of online banking 33.3% of customers highly agreed, 43.3% of customers agreed the state of good, 6.7% of customers on the state of middle and much, finally 10% of customers not much agreed on convenient of online banking services. As overall, 83% of consumers had positive opinion on the online based banks services and 16.7% of consumers were not satisfied about the convenient of online banking.

Table 3: Reliability on online banking

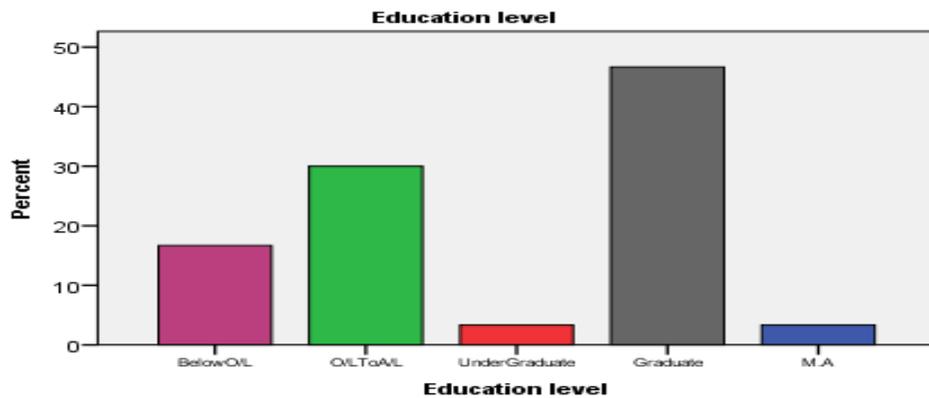
categories		Percent	Valid Percent	Cumulative Percent
Valid	not much	10	10	10
	Much	6.7	6.7	16.7
	Middle	3.3	3.3	20
	Good	50	50	70
	Very much	30	30	100
	Total	100	100	

Source: Research data

Banks always renew their passwords, advertising methods to secure online systems. Above diagram shows 10% of customers didn't have reliable of

internet banking and 6.7% of them had much reliable. 3.3% had state on middle of reliability. 50% of customers had good reliability and 30% had extreme reliability on internet banking. As overall, study revealed customer base have 80% of reliability on the including very much and good categories.

Figure 3: Level of education



Source: Research data

Level of education can be identified as an affecting factor of usage of online banking. 16.7% of customers who had studied up to O/L examination used internet banking. 30% of customers who have faced A/L examination used internet banking. According to the figure 3, there is a considerable decrease in using internet banking among undergraduate as the 3.3%. But 46.7% of graduate customers and 3.3% of postgraduate customers used this facility. These facts prove degree holders motivated for using new technology and considered about time management. According to the above figure 3, 50% customers who graduated and finished masters used online banking services.

### Identifying the new trends in internet banking

Total online transactions between June to November in 2015 are collected and estimated the model using simple linear regression. It can be defined as “involves one independent variable in a model”. To achieve the object, total online transaction kept as dependent variable (Y). Time considered as independent variable (X).

$Y$  = Total transactions

$\beta_0$  = Autonomous total transaction

$X$  = Time

$$Y = \beta_0 + \beta_1 X$$

Table 4: Coefficients of regression model

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-5.067	2.701		-1.876	.134
	Month	18.257	.694	.997	26.322	.000

a. Dependent Variable: Total transactions online

Source: Research data

$$Y = -5.067 + 18.257X$$

$$(2.701) \quad (0.694)$$

Considering above table 4, variable named Month is significant under the significant level 1%, 5%, 10%. Because that variable significant value is 0.000. So variable called Month can use to estimate the model. According to the estimated model, autonomous transaction is -5.067. When other factors constant, time passes a month by month then total transactions increase by Rs.18.257. So there is a positive relationship between time & total transactions.

Table 5: Model summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.997 <sup>a</sup>	.994	.993	2.902
a. Predictors: (Constant), Month				

Source: Research data

Above table 5 shows R-square value of the estimated model. This value uses to measure accuracy of the model. R-squared value is 0.997. This means independent variable named time, describes 99% of dependent variable named total transactions. Error term describes only 1% of dependent variable. If R-squared value is over than 50% then Econometricians decide, model as a significant model. Hence this model is more significant according to R-square value.

Table 6: Anova table

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5833.157	1	5833.157	692.852	.000 <sup>b</sup>
	Residual	33.676	4	8.419		
	Total	5866.833	5			
a. Dependent Variable: Total transactions online						
b. Predictors: (Constant), Month						

Source: Research data

The significant value of Anova table uses to measure goodness of fit. It means overall significant level. Under the significant level of 5%, if significant value is below 0.05 then model consider as a significant model. In here significant

value is 0.000. According to the test above shown in table 6, this model can identified as a significant model.

Table 7: Correlation table

<b>Correlations</b>			
		Month	Total transactions online
Month	Pearson Correlation	1	.997**
	Sig. (2-tailed)		.000
	N	6	6
Total transactions online	Pearson Correlation	.997**	1
	Sig. (2-tailed)	.000	
	N	6	6
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: Research data

Correlation can be defined as, “degree and type of relationship between any two or more variables in which they vary together over a period”. Correlation value generally places between -1 & +1. If correlation value,

-1 = perfect negative relationship

0 = neutral relationship

+1 = perfect positive relationship

According to above correlation table, the value of correlation is 0.997. Generally if this value over than 0.5 that variables have good relationship. If this value close to +1, it means variables have better relationship. So the variable time and Total transaction have better & positive relationship.

## **Conclusion and summery**

The main objective of this study is identify the new trends of internet banking. When we are considering about above analysis, there are new trends to use, online bill payments. And also level of educational, customer's reliability on internet banking, & convenient of online banking services can be identify as a factors which are caused to decide the usage of internet banking. 80% of customers have positive opinion on internet banking. Using the value of estimated model and the value of correlation, there is a slowly increasing growth of using internet banking on time in Sri Lanka. According to the view of customers, they have good level of satisfaction about online services of the bank, reliability of details & website, convenient to access the account, & the simplicity to use and understand. Also they agreed with online banking provides more accessible & frequency than traditional banking. Because offline services is not generally excellent in real world. They proposed to increase online banking services furthermore.

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