

Chapter XV

Internet Banking System in South Asian Countries: Preliminary Findings

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ABSTRACT

The Banking Sector in Pakistan is in its developing state of employing Internet Technology for conducting transactions, interactivity and customer relationship management. Government of Pakistan has brought in efforts to improve the situation. In this regard many of the Public sector banks have been privatized in the last decade. The State Bank of Pakistan (Central Bank in Pakistan) has adopted effective measures and introduced reforms for application of Information Technology for using Internet Banking services. This chapter identifies the implementation of the Internet Technology in Pakistan in particular and in South Asian countries in general. The chapter replicates the Diniz (1998) model using the case of Pakistan and other South Asian countries as an example of an emerging banking sector using Internet.

LITERATURE REVIEW

Over the past two decades banks have invested heavily in the Information Technology sector. The banking sector, in both developed and emerging markets, is clearly recognizing the importance of information technology to their continued success. For example, Pollalis (1994), linked the success of banks surveyed to the use of integrating technology in the strategic plan, while Van Aswegen (1993) found that investments

in technology increased shareholder value. Eze (1999) reported that the management of 58% of Nigerian commercial banks believed that investing in information technologies will improve their competitive advantages, such as, customer retention, cost reduction, and in forming alliances or mergers. By the end of 1997, a survey of United States banks with more than \$1 billion in deposits by Martin (1998) found that 45% offered direct banking while another 38 percent planned to offer the service. While not all banks offered Internet

banking services, 53% have such service menus under development. In addition, Martin found that almost all small and money center banks maintain their Websites where clients can view the services offered.

One of the main incentives that encourages banks to adopt new technologies of operations is not only maintaining operational efficiency but also achieving competitive advantages. Banks that exploit new technologies can gain competitive advantages through market share, customer satisfaction, and overall business performance. Peffers (1991) argues that banks which were early adopters of the Automated Teller Machines (ATM) gained significantly more edge than later adopters. He claims that the use of even a single information technology application can affect a wide range of performance variables. Information Technology also impacts organization in other ways, such as, changing the decision pattern of banks to deal better with competition (Clarke, 1989).

It is becoming evident that companies as well as individuals are becoming more likely to manage their accounts and do their banking operations through the internet. Web based banking can, for example, allow a relatively small company to structure and issue basic financial tools such as letters of credit. Other companies are attracted to online banking because it enables them to monitor accounts on a 24-hours basis. As online banking evolves, it is giving some corporations more than just an account-monitoring tool. Several banks for instance provide corporate online banking and allow their clients to invest overnight funds. This can generate substantial profits for a company that has significant, but temporarily, ideal cash funds (Martin, 1998). Companies will also be able to do some sophisticated bargaining and comparison shopping for banking services, since the size and location of the client becomes less important. Other banks have developed online banking products specifically tailored to their smaller business clients.

From an individual perspective Web based banking is a very attractive option. It is proven to be fast, economical, and flexible. Chatzky (1998) focuses on four major Web based banking services. First; direct deposit, where a customer can manage deposits, reimbursements, mutual fund distribution, and tax refunds. Second; electronic bill payment, where lenders and borrowers are authorized to withdraw the amount from a customer's account. Third; automatic investing plans, which debit the customer's account monthly and finally, electronic budgeting, where some financial packages offer advice to manage income and make key financial decisions.

In Pakistan, the 'dot com' culture is emerging at a very fast pace and there has been a significant growth of Pakistani commercial Web sites and information portals. Electronic commerce in Pakistan is growing at a slow pace, which has prompted the government to take a number of e-commerce development initiatives.

INTRODUCTION

Internet and Internet Based Banking

It is a global network of using and sharing data and information from one computer system to another computer system using internet accessibility, browsing software and communication network with acceptable protocols. This phenomenon is not new and spread over the globe very rapidly in few years. In the beginning, Internet was considered to be a fair means of exchange of data and information, but with the passage of time, it has proved its utility and effectiveness in every department of our lives. It is useful at homes and beneficial in the offices. Similarly commercial organizations use Internet services for recording their sales, accounting transactions and monitoring employees' performance. Banks adopted this technology a little late and started their business operation using Internet technology

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