Chapter 13
Online Banking

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ABSTRACT

Over recent years, technological developments in the Information and Communications Technology industry have ensured that the internet has become a significant part of man's way of life. For instance, there is tremendous popularity on the use of social sites, electronic commerce, and internet banking. Such use of the internet has created a global network in a cyberspace that connects everyone together regardless of one's geographical location, economic status, religion, or race. As a result, the trade sector, the finance sector, the media industry, and all other sectors that enable the world to run have had to depend on technology for normal function, and on the internet as a way of associating with the public. For instance, the fact that banks have stayed in the forefront of technological advances has led to significant value addition, and improvement of their products and services offered. Therefore, this paper discusses the use of technology in the finance sector, particularly internet banking in today's world, and the various factors associated with it.

INTRODUCTION

E-Banking also written as electronic banking refers to the usage of computers in carrying out bank transactions. Examples of such transactions include withdrawal of money through cash dispensers or engaging in funds transfer through a point of sale. Electronic banking is also known as internet banking or online banking (Ainin, Lim & Wee, 2005). Therefore, this illustrates the complex nature of the concept of financial services as there is not a universal definition of E-banking. However, it is significant to note that internet or E-banking refers to the use of various electronic services that allow a financial account holder with a particular bank to access all his or her information through a computer. Therefore, in the context of this discussion E-banking will be defined as a self-service activity that permits bank account holder to get access to their accounts, as well as their updated general information on a financial institution's products and services. In addition, these users have the liberty of conducting financial transactions

DOI: 10.4018/978-1-4666-9908-3.ch013

without time or geographical limitation by accessing the bank's website (Kallstrom, 2000, p. 20). There are different types of E-banking, for example, ATM transactions, phone banking transactions, home banking and internet transactions. The ATM banking transactions usually involves a process of access to funds as either a withdrawal or deposit of money into bank account through the automated teller machines (ATM). These machines work 24 hours every day, and they are found in different locations especially in densely populated areas. In order to operate an ATM, an individual needs to have an ATM card with its personal PIN. Services that a customer can access from an ATM machine include, deposit of money, withdrawals, bank statements, request check books and inquire about outstanding account balances

The next type of E-banking is telephone banking that essentially entails the use of a telephone to conduct financial transactions such as inquire account balance, transfer money or pay bills. Internet banking, on the other hand, involves the completion of bank transaction by simply accessing the financial institution's website through the internet. This type of online banking can be conducted by the use of either a computer or mobile phone internet enabled.

BACKGROUND

Electronic banking is a precursor for home banking services the former entailing the use of the touch-tone telephones. In the late 1970's home banking was a common way of conducting financial services without the physical presence at a banking hall (Xu et al., 2006, p. 19). During this time, financial organizations referred to this service as home banking although the whole process depended on the use of phones. Financial services consumers were allowed to pay their bills, transfer money or check their account balances while at home via touch-tone telephones. Consequently, this important development in the financial industry led the invention of software that allowed customers to the bank to connect with their local bank through a dial-up connection. In the late 1980s, this service still unpopular because of a number of reasons. Firstly, the home banking service was only limited to allow certain transactions that the bank and the client had to agree initially. Secondly, this service required heavy investment in technology at the time, and only a few banks could manage to fund such costs. Finally, home banking was not popular after 1985 because the use of PCs was not extensively spread in many households (Laopodis, 2013, p. 26). Examples of banks that offered home banking services during this period include world's major bank that is Citibank, Manufacturers Hanover and Chase Manhattan. Noteworthy, all these financial institutions had roots of origin in America; therefore, illustrating the contribution of the United States in the e-banking services.

In the mid-1990's banks were starting to realize the need to move their financial services into the virtual realm. Apparently, e-banking was becoming an attractive concept as it helped banks diminish transaction costs; it was helpful in promoting easy integration of services as well as introduced interactive marketing capabilities. Additionally, online banking was instrumental towards boosting the bank's customer lists and profit margin faced by the businesses. Furthermore, internet banking allowed institutions to bundle their services into single packages; thus, attracting more customers at minimal overheads. The period of late 1990s saw the advent of the clicks and bricks euphoria; as a result, many banks realized that e-banking was a strategic and imperative innovation (Lassar et al., 2005, p. 15). More so, during this period there were a lot of mergers and acquisitions within the financial industry that resulted in expanding customer base Therefore, financial firms viewed the World Wide Web as the only channel that would help in maintaining customers, as well as build loyalty. However, in the wake of the banks realizing the