

Chapter 10

Internet Banking and Online Trading

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ABSTRACT

In the recent past, online or Internet based banking has become quite common. Banks have also realized the potential of Internet banking and have recognized that it is necessary to integrate the customers' new lifestyle and Web based activity preferences with their business models. Most of the empirical studies have reported positive impact of Internet banking on bank performance. Adoption of Internet banking leads to cost reduction and hence likely to increase banks' profitability. Introduction on internet banking has brought unprecedented speed in banking system and has been playing a major role in the globalization of banking system. As Internet banking makes inroads to banking business, market participants have also started to use Internet for security trading activities. Online trading has led to an upward trend in trading frequency, trading volume, and turnover ratio.

INTERNET BANKING AND ONLINE TRADING

Most of the households in the North America and in the developed economies have access to internet. Over the years, users have become more comfortable with and accustomed to internet use and started to rely on web based activities for daily

and business needs. Banks have also realized the potential of internet banking and have recognized that it is necessary to integrate the customers' new lifestyle and web based activity preferences with their business models. Hence, internet banking has been introduced and started to impact customers' banking activities and personal portfolio management styles. Corrocher (2006) defines the term internet banking as follows:

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“The term Internet banking refers to the use of the Internet as a remote delivery channel for banking services, which include both traditional ones, such as opening an account or transferring funds, and new ones, such as electronic online payments” (p. 536).

Introduction on internet banking has brought unprecedented speed in banking system and has been playing a major role in the globalization of banking system. As Internet banking makes inroad to banking business, market participant have also started to use Internet for security trading activities. Online trading has led to an upward trend in trading frequency, trading volume, and turnover ratio. In this chapter, we will systematically discuss the issues relevant to Internet banking and online trading (i.e. Internet based trading). Although, there are similarities in the concepts of Internet banking and online trading as both are facilitated by web based transactions, for clarity and ease of understanding the practical and empirical issues in these two topics we present them separately.

INTERNET BANKING

In the first part of this chapter, we discuss the brief history of internet banking, its advantages, disadvantages and challenges faced by both banks and customers as a result of internet banking. We also look into the empirical research to find the impact of Internet banking on bank performance and the reasons for adopting Internet banking.

Brief History of Internet Banking

Modern internet banking system has evolved from the distance banking services over electronic media that were introduced in early 1980s.¹ As the case with any new technology, there were a number of trial and errors before the modern practices were adopted. In early 1980s, four major U.S. banks (Citibank, Chase Manhattan,

Chemical and Manufacturers Hanover) started to use some form of home banking services that allowed customers to do distance banking. They introduced ‘videotex system’ to achieve the objective of home banking service – but the project did not success commercially.

In 1983, first online banking service was introduced in the U.K. by Bank of Scotland. They developed the service for the customers of Nottingham Building Society (NBS) that enabled online and distance services such as on-line viewing of statements, bank transfers and bill payments. The system was derived from the ‘Prestel (press telephone) system’ which was originally developed by the postal service department of U.K. and used a computer or keyboard connected to the telephone system and television set. In U.S., Stanford Federal Credit Union was the first financial institution to offer online internet banking services to all of its members in Oct, 1994.² Stanford Credit Union gradually developed its capabilities with a series of user friendly steps. It became one of the first to offer checking accounts and credit cards in the late 1970s. “In the early 1980s, it introduced ATMs and banking by telephone. In November 1993, Stanford Federal Credit Union conducted its first four internet transactions; and in 1994, it became the first financial institution to offer online banking when it launched its website; it offered online BillPay to its members in 1997, added account aggregation and mobile banking in 2002, and became one of the first institutions to implement the Passmark authentication system in 2005.”³

In Canada, The bank of Montreal and the TD Canada Trust were among the first Canadian Banks to introduce internet banking to its customers. Over the time, there have been evolutions of other financial institutions that entirely operate on the internet. For such online banks or financial institutions, access to all accounts and transactions is available 24 hours a day, 7 days a week. Citizens Bank of Canada is the first online bank to offer its service entirely through online

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