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E-Banking of Economical Prospects in Bangladesh

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Abstract

Now a day's due to emerging global economy, e-commerce and e-business have increasingly become a necessary component of business strategy and a strong catalyst for economic development. The new information technology is becoming an important factor in the future development of financial services industry, and especially banking

industry. As a third-world developing country, Bangladesh is far behind to reach the expected level in global banking system. So it is our urgent need to upgrade its banking system. This paper is aimed at to determine economical prospects of e-banking and to explain the present scenario of banking sectors in Bangladesh and at the same time it demonstrates the scope and benefits of e-banking compared with the existing system. This paper also tries to present actual situation of e-banking in the marketing point of view in Bangladesh. The results of this study shows that e-banking serves several advantages to Bangladeshi banking sector, however, the study also shows that the Bangladeshi customers have not enough knowledge regarding e-banking which is rendering by banking sector in Bangladesh. A discussion of the implications of these results and limitations are provided at the end.

Keywords: Banking sector; E-banking; Economy; Research study; Bangladesh

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INTRODUCTION

E-banking is now a global phenomenon. The developed country as a part and parcel of their economy is now using e-banking. A strong banking industry is an important in every country and can have a significant affect in supporting economic development through efficient financial services (Salehi and Azary, 2008; Salehi et. al., 2008). There have already been a number of studies related to e-banking covering a range of research dimensions. For example, Pyun et al. (2002) in the U.S., Japan and Europe, Gurau (2002) in Romania; Sathye (1999) in Australia; Polatoglu and Ekin (2001) in Turkey; Balachandher et al (2000) in Malaysia; and Jasimuddin (2004) in Saudi Arabia focused also related studies of internet banking. Apart from the developed countries, the developing countries are experiencing strong growth in e-banking—such as India and the Republic of Korea—are experiencing particularly strong growth in e-banking. In Southeast Asia, internet banking is also developing rapidly in Thailand, Malaysia, and Singapore and in Philippines (Mia et. al. 2007). We refer also Thulani et. al., (2009) in Zimbabwe; Guangying (2009) in China; Dhekra (2009) in Tunisia; Adesina and Ayo, Maiyaki and Mokhtar (2010) in Nigeria; Salehi and Alipour (2010) in Iran, explored the extent of adoption and usage of internet banking. In Nepal, ATMs are the most popular electronic delivery channel for banking services but only a few customers are using internet banking facilities.

But there have been several major challenges and issues faced to the e-banking growth and the e-business in general. One major obstacle addressed most is the security concern (Feinman, et al., 1999; Financial Service, 2001). Another issue challenged e-business (including e-banking) is the quality of delivery service - including both delivery speed and delivery reliability (Furst, et al., 2000). E-banking services have been available in Bangladesh since 2001. As of 2007, 29 out of 48 banks have offered online financial services (Rahman, 2007). In Bangladesh, research has been done on electronic commerce issues (Azam, 2007), computer usage (Azam, 2005), Internet usage (Awal, 2004), telephone (Khan, 2001) and electronic banking (Bakta et al., 2007). The reason for the lack of complete adoption of e-banking in developing countries like Bangladesh is an important research that will be addressed by this paper. In other

words, despite this growth of IT Worldwide, Bangladeshi banks continue to conduct most of their banking transactions using traditional methods. Understanding the reasons for the lack of such technological innovation in developing countries such as Bangladesh will develop a fruitful research. This paper is aimed at to determine economical prospects of e-banking and to explain the present scenario of banking sectors in Bangladesh and at the same time it demonstrates the scope and benefits of E-banking compared with the existing system. This paper also tries to present actual situation of e-banking in the marketing point of view in Bangladesh.

OBJECTIVES OF THE STUDY

The main objectives of this study are as follows:

- To shed light on the concept of e-banking

- To know the economic prospects of e-banking in Bangladesh context

THE BANKING INDUSTRY AND THE APPLICATIONS OF E-BANKING

Banking has never been more important to our society than it is today. The way Bill Gates (2008) announced that « *banking is essential, banks are not* ». This quotation means that the traditional bank branch is going to vanish in order to be surrogated by electronic banking which continues to attract new users. The banking industry believes that by adopting new technology, the banks will be able to improve customer service level and tie their customers closer to the bank. Meanwhile, the banking industry has been also looking for new methods to expand its customer base and to counteract the aggressive marketing effort of those non-traditional banking entities (Graven, 2000). Larger banks that maintain expensive branch networks tend to have the greatest incentive to adopt e-banking services. In comparison, smaller banks have higher start up costs and tend to have a high initial technological cost in developing e-banking services (Treadwell 2001).

The application of e-banking has been proven as an effective way to reduce the costs of operation for the financial institutions. For instance, e-banking services will allow banks to reduce expenditures on physical structures. It is believed that the e-banking will help banks to cut costs, increase revenue, and become more convenient for customers (Halperin 2001). Another important benefit from e-banking is a more effective information collection and management. A combination of a low percentage of customers using e-banking services on a consistent basis and a relatively low start-up cost in developing e-banking services in the banking industry—will make the impact of e-banking (positive or negative) quite limited on financial institutions (Marenzi, et al., 2001). Finally, the development of e-banking service has encouraged the adoption of a decentralized approach to give banks more needed flexibility to distribute Internet access to a much larger number of employees and potential customers.

RESEARCH METHODOLOGY

The study has been done mainly based on secondary sources of data or information. This is an exploratory research based on secondary data obtained through the Net, books and related journals including different publications: (i) Bangladesh Institution of

Bank Management (ii) Bank for International Standard Working (iii) Papers International and local Publications (iv) Different seminar papers (v) Information from Internet (vi) UNCTAD and WTO publication.

Data from Secondary Data Sources

Secondary data has been collected from different publication material and web site as well as the books and material from different libraries, the hand note of the various seminar and research related to the issue are taken into account that includes the library of BIBM, BANBASE, Science Laboratory, DCCI library. The secondary data have been also collected from research material of the following sources; DBBL–Products and Software, EBL–Survey Report, IBA–Feasibility Report, WTO/UNCTAD–Secret of e-commerce.

RESULT AND DISCUSSION

Present Status of e-Banking in Bangladesh

At present, several private commercial banks (PCBs) and foreign commercial banks (FCBs) in Bangladesh offer limited services of tele banking, internet banking, and online banking facilities working within the branches of individual bank in a closed network environment. The FCBs have played the pioneering role with adoption of modern technology in retail banking during the early 1990s whereas the state-owned commercial banks (SCBs) and PCBs came forward with such services in a limited scale during the late 1990s.

PC banking: PC banking refers to use of personal computer in banking activities while under PC home banking customers use their personal computers at home or locations outside bank branches to access accounts for transactions by subscribing to and dialing into the banks' Internet proprietary software system using password. Basically, PC banking may be categorized into two types such as online banking and Internet banking.

(a) Online banking: At present, 29 scheduled banks offer any branch banking facilities through their respective bank online network that provides facilities like transaction through any branch under the respective bank online network; payment against pay order or pay order encashment, demand draft encashment, opening or redemption of FDR from any branch of the same bank; remote fund transfer, cash withdrawal, cash deposit, account statement, clearing and balance enquiry within branches of the same bank; and L/C opening, loan repayment facility to and from any branch of respective bank under its own online network.

(b) Internet banking: German banks have been offering the Internet banking since the mid-nineties, although the only product they were offering at the time was information. Only 7 out of 48 banks are providing some banking services via internet that include account balance enquiry, fund transfer among accounts of the same customer, opening or modifying term deposit account, cheque book or pay order request, exchange rate or interest rate enquiry, bills payment, account summary, account details, account activity, standing instructions, loan repayment, loan information, statement request, cheque status enquiry, stop payment cheque, refill prepaid card, password change, L/C

application, bank guarantee application, lost card (debit/credit) reporting, pay credit card dues, view credit card statement, or check balance.

Mobile banking: The standard package of activities that mobile banking covers are: mini-statements and checking of account history; alerts on account activity or passing of set thresholds; monitoring of term deposits; access to loan statements; access to card statements; mutual funds/equity statements; insurance policy management; pension plan management; status on cheque, stop payment on cheque; ordering check books; balance checking in the account; recent transactions; due date of payment; PIN provision, change of PIN and reminder over the internet; blocking of (lost/stolen) cards; domestic and international fund transfers; micro-payment handling; mobile recharging; commercial payment processing; bill payment processing; peer to peer payments; withdrawal at banking agent; and deposit at banking agent. Despite huge prospects, only a few banks adopted mobile banking in Bangladesh during the last year.

Tele banking: Tele banking service is provided by phone. Only four banks so far provide a few options of tele banking services such as detail account information, balance inquiry, information about products or services, ATM card activation, cheque book related service, bills payment, credit card service and so on. Funds transfer between current, savings and credit card account, stock exchange transactions etc are still inaccessible through tele banking in Bangladesh.

PROSPECTS OF E-BANKING IN BANGLADESH

The Bangladesh Railway owns a high-speed optical fiber network (1,800 km) parallel to the railway path that covers most of the important parts of Bangladesh. This optical fiber network can be used as the backbone network of e-banking in Bangladesh. For example, mobile phone operators such as Grameen Phone and Ranks ITT of Bangladesh use this optical fiber network through which they reach even in rural areas with their services (Islam 2005). It is encouraging that some of the FCBs and PCBs are already using this optical fiber network for conducting online transactions, ATM and POS services.

Digital telephone exchanges have been established in 389 upazilas and 17 growth centres. Work is underway to cover the rest of the upazilas under digital exchange system. Meanwhile, Bangladesh has joined the information super-highway by connecting itself with international submarine cable system in 2006. A total of 159 Internet Service Providers (ISPs) have now been connected with this system of which 64 are actively providing services. Internet connection is slow with bandwidth range 32 kbps to 56 kbps for dial up and 64 kbps to 8 mbps for broadband. Under this scenario, as a part of government decision of building digital Bangladesh, the existing capabilities of ICT sector is likely to increase rapidly in bringing all upazilas under internet services and this will contribute in widening the scope of e-banking throughout the country.

The overall computer density in the banking sector is 1.64. For foreign commercial banks (FCBs) the computer density is 45.34, where as for NCBs the ratio is only 0.41. The specialized bank scenario is almost same as the NCBs, 0.43. On the other hand, private commercial banks have comparatively higher ratio, 4.94. As a whole 81.81

percent bank does not have any local area network (LAN), 30 percent have WAN (Wide Area Network) but for some banks many branches are outside of WAN connectivity. At present, all foreign banks of our country are using online banking system; they are invested a lot for their automation banking services. They are the pioneer of implementing electronic banking systems in Bangladesh, but now most of the private banks of our country are using electronic banking systems. In our country different banks are offering electronic banking services in different ways, some are offering ATM (Automatic Teller Machine) services, some are tele-banking and some are electronic fund transfer, debit card, credit card etc.

Recently, the government's emphasis on building a digital Bangladesh, setting up ICT park, raising allocation for developing ICT infrastructure, waiving taxes on computer peripherals and other measures including the automation program of banking sector led by the Bangladesh Bank and competition among the scheduled banks in improving customer services have accelerated the prospects of e-banking in Bangladesh.

ECONOMIC ASPECT OF E-BANKING IN BANGLADESH

Advantages of e-banking in Bangladesh:

There are a substantial number of educated unemployed youth forces, with ability to read and write English exist in the country. They can be trained within a required skill in a short time.

Short term Benefits:

Reduce extra time; Increase productivity and efficiency; Eliminate duplication and wastage; Cut down maintenance, and shortage cost; Curtail security cost.

Long-term benefits:

Create new opportunities of jobs for jobless; Participate in the country's economic health; Proper planning and monitoring; Proper use resources.

Job creation:

According to Bangladesh Bureau of Statistics, the number of unemployed people in Bangladesh in 1990-01 was 1.0 million. Among them 0.2 million are male and 0.8 million female, at the rate of unemployment is 1.1 which is extended 1.9. The issue of computers eliminating jobs of people is quite emotional and painfully real. But it has two sides that automation will eliminate certain types of job like record keeper and also create jobs like administrator, system analyst, programmer, operator etc. and help to reduce unemployment problem.

Contribution to GDP:

Banks with a national economy, work towards building national capital, increasing national savings and mobilizing investments in trade and industry.

Benefits from the banks' point of view:

From the banks' view point, the first benefits for the banks offering e-banking services is better branding and better responsiveness to the market. The other benefits are possible to measure in monetary terms. The main goal of every company is to maximize profits for its owners and banks are not any exception. Automated e-banking services offer a perfect opportunity for maximizing profits.

Benefits from the customers' point of view:

The main benefit from the bank customers' point of view is significant saving of time by the automation of banking services processing and introduction of an easy maintenance tools for managing customer's money. The main benefits of e-banking are as follows: Increased comfort and timesaving-transactions can be made 24 hours a day, without requiring the physical interaction with the bank.

Quick and continuous access to information. Corporations will have easier access to information as, they can check on multiple accounts at the click of a button.

Better cash management. E-banking facilities speed up cash cycle and increases efficiency of business processes as large variety of cash management instruments is available on Internet sites of banks.

Private customers seek slightly different kind of benefits from e-banking.

Reduced costs: This is in terms of the cost of availing and using the various banking products and services.

Convenience: All the banking transactions can be performed from the comfort of the home or office or from the place a customer wants to.

Speed. The response of the medium is very fast; therefore customers can actually wait till the last minute before concluding a fund transfer.

Fund's management. Customers can download their history of different accounts and do a "what-if" analysis on their own PC before affecting any transaction on the web.

Economical benefits:

E-banking serves so many benefits not only to the bank itself, but also to the society as a whole. E-banking makes finance economically possible: (i) Lower operational costs of banks (ii) Automated process (iii) Accelerated credit decisions (iv) Lowered minimum loan size to be profitable.

Potentially lower margins: (i) Lower cost of entry (ii) Expanded financing reach (iii) Increased transparency.

Expand reach through self-service: (i) Lower transaction cost (ii) Make some corporate services economically feasible for society (iii) Make anytime access to accounts and

loan information possible.

Policy Implications

The comprehensive set of e-banking products can help us run our business more effectively by automating many of our critical banking activities and interacting electronically with our bank. Initial cost of e-banking may be high, but it can be recovered within a few years. Electronic banking may play a vital role in order to promote an automated service to the potential customers. Ministry of finance can also play some role for conveyance. Arrange monthly seminar in the banks or in the training academy of the banks to make awareness about the new technology available in banks. Electronic security and viability may require taking faith from the potential clients. Communication should be liberalized for technological advancement. Bank should develop own online software rather depending on other vendors.

LIMITATIONS AND CONSTRAINTS

The focus of the study is mainly based on Dhaka base some banks in Bangladesh. E-banking is the important issue in world but Bangladesh is developing country with the limited infrastructure facility and limited skill manpower. Computer literacy is very few and information technology is in the infant position. There are some limitations faced during the study: Small span on time. Shortage of book and published sources are in Bangladesh. The study is based on limited variable. Difficulties faced to collect the desire information. Disclosing the information is very restricted. IT division is not cooperative all the time. In addition, Interviewing target respondents adopted convenience sampling as alternative to random sampling, at some phases where respondents were inaccessible or not available. Bank officials were found too busy and also reluctant to talk without a proper written permission from the competent authority.

Although e-banking has bright prospects, it involves some financial risks as well. The major risk of e-banking includes operational risks (e.g. security risks, system design, implementation and maintenance risks); customer misuse of products and services risks; legal risks (e.g. without proper legal support, money laundering may be influenced); strategic risks; reputation risks (e.g. in case the bank fails to provide secure and trouble free e-banking services, this will cause reputation risk); credit risks; market risks; and liquidity risks.

CONCLUSION

E-Banking, the latest generation of electronic banking transactions, has opened up new window of opportunity to the existing banks and financial institutions. Most of the banks have their own websites but not all of them offer internet facilities. The main reason of this is that the banks do not have the IT infrastructure and proper security features. In Bangladesh most of the people are illiterate and obviously they are technology ignorant. But among the literate portion many of them have computer phobia. So these people can't trust on the internet banking services. To gain the confidence on internet banking the overall computer literacy must be developed. With that goal government has taken

initiative even in the root level to develop it literacy in the country.

However, with banking customers growing increasingly comfortable with the digital lifestyle, but Bangladeshi customers are not aware about e-banking in Bangladesh. They are not fully understand the power of technology and seek to leverage it to enjoy better control over their banking operations. To conclude that e-banking may also provide other benefits. For instance, creating new markets, and reducing operational costs, administrative costs and workforce are increasingly important aspects for the banks' competitiveness, and e-banking may improve these aspects as well. So, Bangladeshi banks should take these advantages of e-banking in Bangladesh economy as early as possible.

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