



## Online banking: a field study of drivers, development challenges, and expectations

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### Abstract

Online banking is the newest and least understood delivery channel for retail banking services. Yet, few, if any, studies were reported quantifying the issues relevant to this cutting-edge technology. This paper reports the results of a quantitative study of the perceptions of banks' executive and IT managers and potential customers with regard to the drivers, development challenges, and expectations of online banking. The findings will be useful for both researchers and practitioners who seek to understand the issues relevant to online banking. © 2001 Elsevier Science Ltd. All rights reserved.

*Keywords:* Internet; Electronic commerce; Online banking; Issues

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### 1. Introduction and motivation

The last few years have witnessed profound technological changes among which is the advent of electronic commerce (EC), or the exchange of products (tangible and otherwise) and payments via telecommunication systems (Kalakota & Whinston, 1997). Potentialities of this technology are remarkable. It is currently the fastest growing area for businesses worldwide. The monetary value of products and services exchanged using EC is expected to reach US \$7 trillion by 2004 (Sanders & Temkin, 2000).

Most industries have been influenced, in one way or another, by this promising new technology (Gunasekaran & Love, 1999; Kalakota & Whinston, 1997; Ng, Pan, & Wilson, 1998; Westland and Clark, 1999). However, nowhere has the presence of EC been more apparent than in the banking industry (eMarketer, 2000; Irish Times, 1999). Many banks have established presence on the Internet and many others are in the process of doing so. Using telecommunication systems and technologies, a bank can reach out to customers and provide them with not only general

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information about its services but also the opportunity of performing interactive retail banking transactions.

Online banking is the newest delivery channel for retail banking services. Online banking refers to several types of services through which bank customers can request information and carry out most retail banking services such as balance reporting, inter-account transfers, bill-payment, etc., via a telecommunication network without leaving their homes or organizations (Daniel, 1999; Mols, 1998; Sathye, 1999). In the present paper, we will focus on three major forms of online banking. The first is also known as web-based banking where a customer can access his or her account(s) when he or she uses the Internet. The second form of online banking is where a bank customer uses a modem to dial-up to a bank's server to access his or her bank account(s). The later type of online banking is known as dial-up banking. A special type of dial-up banking is called an Extranet, a private network between a bank and its corporate customers.

Offering an online banking system is an effortful task, which proceeds through three generic stages (Conger & Mason, 1998): pre-development, development, and post-development. The pre-development stage refers to the period before producing a bank's online services site. In this stage, the idea of adopting online banking emerges and the benefits of initiating online banking become discernible for bank's management. The development stage refers to the actual development or implementation of online banking. The development process of an online banking site involves several managerial and technical issues that need to be addressed adequately. The last phase, post-development, refers to the period after terminating the actual production process of the online banking system. In this stage, bank management needs to understand transfer and maintenance issues to ensure the future success of the project. No doubt if one seeks to understand online banking, then one needs to take into account the full spectrum of issues related to online banking growth.

Online banking research to date is to a large extent anecdotal. Few, if any, studies were reported quantifying the issues relevant to online banking. In a case study, Khiaonarong (2000), for example, examined electronic payment systems. The author discussed relevant issues including the development of laws supporting electronic payment systems, risk reduction measures, and change-management issues. Tan and Teo (2000) validated a model linking attitudes, subjective norms, and behavioral controls to intention to use Internet banking services. Liao, Shao, Wang, and Chen (1999) studied the relationship between innovation attributes (relative advantage, ease of use, compatibility, image, voluntariness, and trialability, among others) and online banking adoption. Daniel (1999) examined online banking issues, e.g., culture of innovation, market share, organizational restrictions, and customer acceptance, from the perspective of Internet/IT managers. The author also considered the main trends in non-electronic retail banking practices. Mols (1998) investigated behavioral issues of online banking, e.g., satisfaction, word-of-mouth, repurchase intentions, price sensitivity, propensity to complain, and switching barriers. Sathye (1999) studied the effect of security, ease of use, awareness, pricing, resistance, and infrastructure issues on customers' adoption of online banking.

Despite its significance, available research suffers from at least two deficiencies. First, past research has a rather narrow focus in terms of issues discussed. For example, Daniel (1999) focused only on five drivers of online banking, while Sathye (1999) focused on six determinants of online banking adoption decision. Similarly, Mols (1998) focused on only six behavioral issues

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