

# Adoption and Use of Internet Banking in Pakistan

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## Abstract

The basic objective of this research is to recognize the key factors that preventing Pakistani community (Individual & Business Clients) from adopting of e-banking in terms of services offered by the Banks of Pakistan. Other than that, this research also examines the association among the customers who were eager to use e-banking and the 4 uniqueness of individual and businessmen's. Quantitative technique is adopted by utilizing survey approach from sample size of 150 respondents, in which 100 returned questionnaire were used for analysis. Descriptive statistics are used to analyze the customer's opinion by calculating gap between expectations and perception. The result shows some misconceptions regarding Internet Banking and also has found some major factors that preventing consumers for adopting of Internet Banking services in Pakistan. This research illustrates that customers require awareness and more safety measures and these two are the key reasons for slow adoption of e-banking. Unreasonable price is in third ranking. The result also shows that non-access to computers/Internet, resistance to change and difficulty in use are not the major factors affecting adoption of Internet banking.

## Introduction

### 1.1 Background

Technology is the main factor which is changing the business today. With the help of new technology new products and services over internet is creating. (Liao & Cheung, 2002). According to Yudkin (1995), there are as many definitions of the Internet as there are researchers. Chaffy (2000) explains it as a physical network that links computers across the globe.

#### 1.1.1 Statement of the Problem

A complete contemplation of future e-banking in Pakistan would require exploration in dissimilar areas. This study has addressed the acceptance concern of e-banking in Pakistan. Previous researches commonly focus only on the positive features of Internet banking like benefits (Suganthi et al., 2001), faith (Suh and Han, 2002), innovations (Garrard and Cunningham, 2003). Internet banking technology in Asian countries, especially in Pakistan is less developed as compared to Western world.

### 1.2 Purpose

The purpose of this study is to find out the superior understanding of Pakistani issues which are preventing the consumers to accept internet banking.

### 1.3 Significance of the Study

The time available for this study was limited, and aspects of the topic were many, an attempt to narrow down was made. The study will focus only on the customer's perspective in Internet banking rather than bank's perspective. Since the plan was to provide a superior understanding on how Internet banking is developing in Pakistan.

### 1.4 Research Questions

To find out the issues following research questions was developed which are stated as below:

RQ1: Why clients are not using e-banking?

RQ2: Trend of people towards internet banking?

RQ3: How internet banking can be improved that most people start using it?

## Literature Review

The objective of this part is to make available the appropriate literature in the field we are doing research. In this part the different internet banking services are defined.

According to (Sathy 1999) the e-banking is changing the whole financial and banking industry by changing their core products and services (Sathye, 1999). Internet Banking is an influential mechanism which can be very useful for development, growth, profitability, competitiveness and supporting. (Kamel, 2005 and Nath, Shrick and Parzinger, 2001). Different organizations are moving towards Information Technology for improving their efficiency and growth. Of these organizations the financial institution like banks are also implementing the Information Technology for improving their efficiency and for decreasing their operating cost.

(Nath et al, 2001 and Kannabiran and Narayan, 2005). Technological changes have been recognized to contribute to the distribution channels of banking sector and these delivery channels are jointly referred to as e-banking, (Goi, 2005). The advancement of e-banking technology has been determined by changes in distribution channels as verification by automated teller machine (ATM), Phone banking, Telephone-banking, PC-banking and most newly e-banking (Chang, 2003 and Gallup Consulting, 2008).

### 2.1 Internet banking

E-banking means a systems that facilitate bank clients to get access to their accounts and common information on bank goods and services by the use of e-bank's website, exclusive of the interference or trouble of sending correspondence, faxes, original signatures and cellular phone confirmations (Henry, 2000).

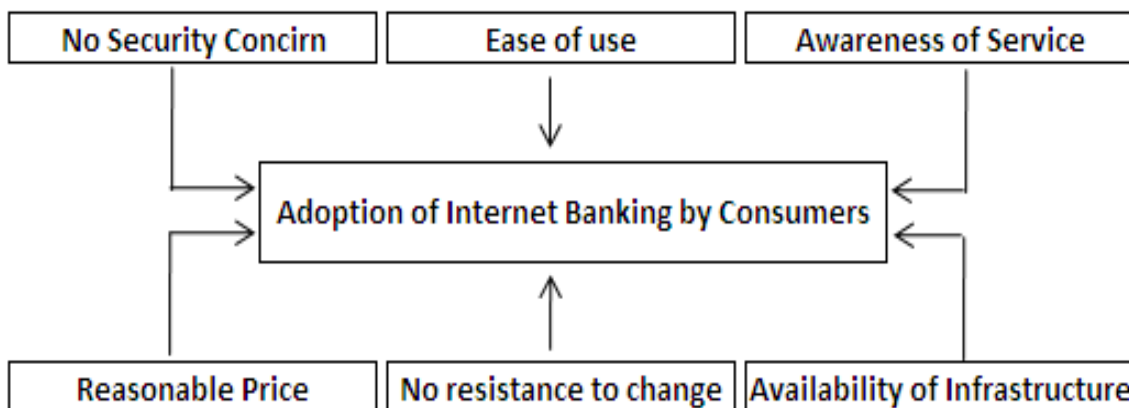
### 2.2 Conceptual Frame work:

The considered model which is the main root of this research is characterized in terms of six variables, which illustrate the acceptance of innovative goods and facilities. The research variables are as follows.

Factors Affecting the use of internet Banking:

1. Unaware about the service
2. Ease of Use
3. Safety and Security
4. Reasonable price
5. Change agent
6. Access of Computer / Internet

Figure 2.3: Research Model



The data required for this research is based on two types of client's the first type of clients are those who are the individual salaried persons and the second type of clients are businessmen's. A sample of 150 was formed being 75 each for individual clients and business clients.

### Methodology

This chapter defines the different research methods and also those methods which used in this research study. This chapter additional describes the research reason, research approach, research stratagem and information gathering techniques and investigation approach. Besides all these this chapter also explains the selected sampling method, the method the information for the research has been composed and procedures used to examine the statistics. In addition, the problem of the trustworthiness and legitimacy of the existing study is discussed.

### 3.1 Research Purpose

There are several techniques which could be used to carry out the research based on research problem area. When dealing with research problem, one can use any of the three classification of research (Yin, 1994).

#### 3.1.1 Descriptive

It is a descriptive research because the data has been collected through questionnaires to explore the system trust issues that influence consumers to adopt Internet banking services.

### 3.2 Population and sampling:

Population and sample for this study are divided in to two types one is individual client and the second is businessmen's. Therefore the individual clients consist of salaried personnel and Businessman's in Pakistan. The

whole sample amount was fixed at 150 (individual and business respondents being 75 each), in view of instance and price contemplations. Bearing in mind the small reply rates in inspections, 150 feedback form were sent out. The research was restricted to Karachi city where use of Internet was likely to be determined. The 150 feedback forms received from the respondents with an overall reply rate of 67 per cent. Of these, 50 feedback forms were discarded as these moreover were empty or responded the demographic sections only. The remaining 100 feedback forms were utilized for data investigation.

### **3.3 Non Probability Convenience sampling**

It is another type of sampling. This type is only used in exploratory research because in exploratory research the basic purpose of researcher is to know the truth without getting expenditures. That's why it is called convenience sampling. It is commonly used in preliminary research because it with the help of this method we can gather data without paying cost and spending time. (Saunders, 2000).

Non-probability (convenience) sampling has been chosen for this research because it is not possible to collect data from the whole country.

### **3.4 Design and Development of Research Instrument:**

The design for this research is based on 16 items questionnaire. The questionnaire was finalized after several cross checking of reliability and validity. All the questions in this instrument was used to check the variables of this study. It is tried to focus on different issues which customers are facing while using internet banking in each question. The questionnaire also includes multiple choice questions. The reliability of questionnaire was checked by getting the data of 20 samples of both categories Business and individual and checking the reliability. Some corrections had also been done after checking the reliability. After changing the questionnaire the reliability was again pretested by collecting the data of 25 samples of each category (Business and individual). The first four questions was related to use of computers, availability of computer and internet, access to computer, place of access and the last four question was about demographic questions like age, income, education, etc. In question no 5 it was asked to the respondents that in which bank they have account. In question no 6 awareness was checked that whether the respondents are aware or unaware about the products. The next question was asked by aware user that are they using internet banking or not? And those respondents who are using the internet banking was asked in the next question that how did the find the available service. This question is replied by using eight item scales which is, easy to use, difficult to use, cheap, expensive, safe, unsafe, different, and not different from conventional banking and the respondents who were not using the internet banking services were asked in the next question which is question no 9 that why were they not using internet banking services even the banks where they have account was providing the internet banking service this question was replied by using the six variables. In the next question it was asked from those customers who were not using the internet banking that will they use the internet banking the bank provide it.

Those respondents who were said that they want to use the internet banking service were asked that what were the expecting from the bank. This question was also replied by using the six items scale, the six variables.

### **3.5 Data Collection Technique**

The 150 feedback forms were received from the respondents with a reply rate of 67 per cent. But the 50 questionnaire was discarded because they were not properly fully filled or mostly oly filled the demographic section. The remaining 100 feedback forms were used for data analysis. The summary of the respondents has been shown in Table 3.1.

## **Data Analysis**

### **4.1 Descriptive statistics of Demographic**

The data were collected from two broad categories of respondents, i.e. personal and business respondents. Tables 4.1 and 4.2 present the demographic characteristics of these sets of respondents.

**Table 4.1: Profile of Survey Sample:**

Personal Respondents		
Respondents Characteristics	Number of Respondents who answered	Percent
<b>Age</b>		
18 to 25	19	33
26 to 35	23	40
36 to 45	15	26
<b>Total</b>	57	100
<b>Occupation</b>		
salaried Employed	57	100
<b>Total</b>	57	100
<b>Qualification</b>		
Diploma	5	9
Graduates	29	51
Masters	20	35
Post Graduate	1	2
Doctorate	1	2
Others	1	2
<b>Total</b>	57	100
<b>Income</b>		
Less than 20000	21	37
2001 to 40000	15	26
40001 to 60000	12	21
60001 to 80000	4	7
Above 80000	5	9
<b>Total</b>	57	100

**4.2 Responses of Six Variables:**

The responses of the personal and business respondents to the six variables as above are shown in Table 4.3. In Table 4.4, the above two categories have been sub-divided into two more categories, namely "aware" and "unaware". "Aware" represents those respondents who are aware about availability of Internet banking service, while "unaware" represents those respondents who have no knowledge that such a service was available. In Table 4.5, these two groups were further classified, as follows:

**Table 4.3: Views of Personal and Business respondents to the six variables**

	Personal		Business		Total	
	No	Percent	No	Percent	No	Percent
Lack of Awareness	42	73	28	64	69	69
Difficult to Use	29	50	13	31	42	42
Security Concern	44	78	31	73	76	76
Unreasonable Price	34	60	22	51	56	56
Not Willing to Change	31	54	6	14	37	37
No Access to Internet	21	37	2	5	23	23
<b>N</b>	<b>57</b>	<b>100</b>	<b>43</b>	<b>100</b>	<b>100</b>	<b>100</b>

Table 4.3 shows the results of all six hypotheses. According to the results security concerns and lack of awareness about Internet banking and its benefits are the main reasons of non adoption of Internet banking. Unreasonable price is in third ranking. This table also shows that non-access to computers/Internet, resistance to change and difficulty in use are not the major factors affecting adoption of Internet banking. The paragraphs below discuss the findings with respect to each of the six variables.

**4.2.1 Security concerns** According to Table 4.3, 76 percent of the total respondents has been facing Security problem and if when we talk about the two categories its result shows that 78 per cent of personal and 73 per cent of business respondents are facing problem. Its mean personal respondents are more security concerns than business respondents. Table 4.4 shows that the security concerns were much higher (77 per cent), among aware personal respondents about Internet banking, than the business respondents in this category (47 per cent).

According to Table 4.5 95 per cent of personal respondents who were aware about Internet banking but were not using it ascribed security concern as the reason compared to 64 per cent of business respondents. It is interesting to note from Table 4.4 and 4.5 that irrespective of the category of respondents "security" is identified

as the biggest obstacle to adoption. These results are consistent with those found in other studies; for example, security concern among customers was the top ranking obstacle for non-adoption of Internet banking in Latin America (Booz, Allen & Hamilton, 1997).

**Table 4.4: Views of personal and business respondents according to awareness of Internet banking**

	Aware		Unaware		Total	
	No	%	No	%	No	%
<b>Personal</b>						
Difficulty in use	4	28	24	58	29	50
Security concern	12	77	33	78	44	78
Unreasonable price	3	23	31	73	34	60
Resistance to change	7	49	24	56	31	54
No access to Internet	4	26	18	42	22	38
Benefits of IB not clear	8	55	34	80	42	73
<b>N</b>	<b>15</b>		<b>42</b>		<b>57</b>	
<b>Percent</b>		<b>26</b>		<b>74</b>		<b>100</b>
<b>Business</b>						
Difficulty in use	4	28	10	32	13	31
Security concern	6	47	26	85	32	74
Unreasonable price	3	22	19	64	22	51
Resistance to change	2	15	4	14	6	14
No access to Internet	1	6	1	4	2	5
Benefits of IB not clear	5	41	22	74	28	64
<b>N</b>	<b>13</b>		<b>30</b>		<b>43</b>	
<b>Percent</b>		<b>30</b>		<b>70</b>		<b>100</b>

Respondents who are aware about availability of Internet banking service and are using it (AU); respondents who are aware about availability of Internet banking service but are not using it (ANU); respondents who are unaware about availability of Internet banking but are prepared to use it, if made available (UPU); and Respondents who are unaware about availability of Internet banking and are not prepared to use it, even if made available (UNPU).

**Table 4.5: Views of personal and business respondents according to awareness and use of Internet banking (IB)**

	Aware				Unaware				Total	
	AU		ANU		UPU		UNPU		No	%
<b>Personal</b>	No	%	No	%	No	%	No	%	No	%
Difficulty in use	0	0	4	40	8	43	17	68	28	50
Security concern	2	37	9	95	14	75	19	80	44	78
Unreasonable price	0	0	3	33	15	82	16	66	34	60
Resistance to change	0	0	7	73	2	11	21	88	31	54
No access to Internet	0	0	4	38	2	11	15	63	21	37
Benefits of IB not clear	0	0	8	81	15	86	18	75	42	73
<b>N</b>	<b>5</b>		<b>10</b>		<b>18</b>		<b>24</b>		<b>57</b>	<b>100</b>
<b>Business</b>										
Difficulty in use	0	0	4	48	8	31	2	40	13	31
Security concern	1	23	5	64	21	84	5	87	32	74
Unreasonable price	1	25	1	19	16	64	3	63	22	51
Resistance to change	0	0	2	24	0	0	4	80	6	14
No access to Internet	0	0	1	10	0	0	1	23	2	5
Benefits of IB not clear	0	0	5	69	19	78	3	57	28	64
<b>n</b>	<b>5</b>		<b>8</b>		<b>25</b>		<b>5</b>		<b>43</b>	<b>100</b>

**4.2.2 Lack of awareness about Internet Banking:** The results of table 4.3 shows that 69 per cent of the total respondents were not clear about the benefits or added value that Internet banking. Of these respondents 73 percent were personal respondents and 64 per cent were business respondents.

**4.2.3 Ease of use** Table 4.3 shows that 42 percent of respondents were facing difficulty in use that's why we can say that it is the main reason for non-adoption of Internet banking. Table 4.4 also shows us that, of those who were aware of Internet banking, only 28 per cent both business and personal respondents are facing difficulty so it is also the reason of non-adoption of Internet Banking.

**4.2.4 Pricing/cost aspects:** In the Pakistan context, it was found that 56 per cent of all respondents consider that unreasonable price was preventing them from adoption of Internet banking. Internet banking services are

generally free for personal customers: still, 60 per cent of the personal respondents indicated this as the reason for non-adoption. Obviously, these respondents were unaware that the service is generally offered free of charge.

**4.2.5 Resistance to change** Only 32 per cent of the customers found as the reason for non adoption. The data shows that in the case of personal customers resistance to change was found to be much higher that is 54 percent but in the case business customers this result shows 14 percent. Table 5.5 shows that 73 percent of the customers, who were aware but not using the service, have shown resistance to change.

**4.2.6 No access to computers/Internet** This is the least cited, of all the factors, for non-adoption of Internet banking. Most customers have access to Internet, at home or at the office or both. Table 4.4 shows that, of the personal respondents who are aware of Internet banking, 26 percent cited this as the reason for non adoption, compared with only 6 per cent of business respondents.

**Table 4.6: Chi –Square Test: Interest in Internet Banking**

	Chi-square value	Df	P-value
Age	23.40758	3	0.000
Income	17.31329	4	0.002
Qualification	7.71711	4	0.103
Occupation	4.83886	2	0.089

### 4.3 Discussion of results

This study shows the major factors that influence the consumer uptake of Internet banking in Karachi, Pakistan. As identified, security concerns and lack of awareness about Internet banking and its benefits stand out as the obstacles to non-adoption of Internet banking. Security is a burning issue and even one instance of adverse media publicity can damage consumer confidence in the system.

## Conclusions and Recommendations

### 5.1 Conclusion

The objective of this study was to quantify the factors preventing adoption of Internet banking in Pakistan. The literature on Internet banking in Pakistan does identify lack of awareness and security concerns as the prime reasons for slow adoption thereof by consumers. The analysis shows that security concerns and lack of awareness stand out as the reasons for non-adoption of innovation of Internet banking by Pakistani customers.

The findings from respondents shows that lack of awareness, system security concerns as the prime reasons for slow adoption of Internet banking in Pakistan. Bank managements should build a strong system security to attract customers and develop their trust. Trust is one of the most critical issues, including worries about security of the system, low reliability of transactions and distrust of the service provider.

### 5.2 Recommendations

Bank management could build awareness by emphasizing the benefits of Internet banking and educate customers about security concerns on the lines suggested in this paper. Further, the delivery of financial services over the internet should be treated as a part of overall customer service and distribution strategy. The relationships developed could then be used as a gateway for delivery of product information. These measures could help in rapid migration of customers to Internet banking, resulting in considerable savings in operating costs for banks.

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