



Internet banking versus other banking channels: Young consumers' view

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ABSTRACT

Financial institutions offer new banking channels to their customers, as technology adds new dimensions to the classic banking systems. One of the most popular self-service banking technologies is Internet banking. This study examines how young consumers perceive Internet banking in relation to other six banking channels (brick and mortar, automated teller machine (ATM), phone banking, wireless application protocol (WAP), electronic fund transfer at point of sale (EFTPOS), and bank branches in stores). Correspondence analysis and cluster analysis revealed the banking channels that are close with Internet banking. The results indicate that Internet banking, ATM, and phone banking substitute each other. The results also show that Internet banking is considered to be efficient for ease of use and access, and that the users of Internet banking lack confidence in the security of the web sites of Internet banking. The article concludes with a discussion of implications, limitations, and directions for future research.

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1. Introduction

Developing alternative channels for retaining the existing customers as well as for attracting new ones is very important to financial institutions (Kimball & Gregor, 1995; Thornton & White, 2001). For this reason, financial institutions offer new banking channels to their customers, as the technology adds new dimensions to the classic banking systems. For example, over the last few years, self-service technologies have replaced the need for face-to-face interaction between banks and customers (Eriksson & Nilsson, 2007).

The automated teller machine (ATM) was the first example of a self-service device that was aimed at providing convenience to the customers to meet their banking needs while decreasing costs for the bank. Although the banking industry has a large capital invested in ATMs, banks do not obtain the desired results (Colonia-Willner, 2004). The next development was the introduction of phone banking, which is another delivery channel for branches of the financial services via telecommunication devices connected to an automated system of the bank. It enables customers to perform some of their transactions through a phone call. By the mid-1990s, many banks had begun to experience directly the potential the Internet offered them. Ultimately, the Internet presented a novel alternative to the phone banking systems (Claessens, Dem, De Cock, Preneel, & Vandewalle, 2002),

Internet banking. Internet banking services allow customers to use remote access to manage their bank accounts and transactions (Weir, Anderson, & Jack, 2006). Nowadays, banks provide a complete range of financial services through their Internet banking channels because they are more cost-effective than other customer-contact channels (Gopalakrishnan, Wischnevsky, & Dmanpour, 2003; Polatoglu & Ekin, 2001) with less staff and fewer physical branch requirements (Cheng, Lam, & Yeung, 2006). Yakhlef (2001) indicates that the average transaction cost at a full-service bank is \$1.08, whereas on the Internet the cost is 13¢ or less. According to Nevens (1999), the bank transaction cost drops 80% or more when it is handled electronically. According to Eurobarometer survey (2002), in order of importance of use, Internet banking occupies the sixth place preceded by e-mail, online searches for information on news/topics, travel, training/education, and health. However, customer adaption of Internet banking has not been as strong as most banks might have wished. According to Furnell (2004), customers have a tendency to be confidential about their accounts and are concerned with the security of banking transactions. This influences the level of adoption of Internet banking services (Aladwani, 2001).

In Turkey, it is estimated that there were 1.8 million Internet accounts and over 2 million Internet users in 2000 (Eurostat, 2001). Furthermore, 20% of the Internet users used Internet banking channels in 2002 (NTVMSNBC, 2002). Nearly 50% of all transactions were made outside the branch (Vatan, 2003). Despite the low penetration of PC and Internet among businessmen and consumers in Turkey, Internet banking is growing very rapidly.

In addition, considering the fact that Turkish banks have made large investments in IT applications such as ATMs, POS, smart

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card, data mining, call centers, and Internet banking, considerable attention should be paid to a relevant question of what prevents customers from using Internet banking channels.

Many studies published on Internet banking are mostly related with Internet banking adoption and acceptance, security and risks of online banking system and interface designs (Bauer & Hein, 2006; Cheng et al., 2006; Claessens et al., 2002; Lai & Li, 2004; Luarn & Lin, 2005; Suh & Han, 2002; Weir et al., 2006). However, to our knowledge, there are only a limited number of studies that examines the differences and similarities between other banking channels and Internet banking. Mols (1998) compared users of PC-based banking systems with non-users. Wisner and Corney (2001) identified Internet bank sites, evaluated them with respect to the customer feedback capabilities, and made comparisons between the brick and mortar and Internet banking. Yakhlef (2001) explored the changes in implementing Internet and determined how these changes affected the brick and mortar distribution channels of banks. Akinci, Aksoy, and Atilgan (2004) conducted a survey to develop an understanding of consumer's attitudes and identified whether a significant difference existed among demographic profiles and attitudes of Internet banking users and non-users. The results reveal that there are significant differences between users and non-users, and that the most important three attributes in customers' bank selection processes were related to security, reliability, and privacy issues. On the basis of the similarities between web-based bank services, four categories of services were defined. These categories include information services, money transfers (EFT and payments), investment services (stock, bond, and mutual funds), and repo and currency exchange services. One relevant study to the current work was conducted by Thornton and White (2001) to investigate whether particular attitudinal variables affect the usage level of ATMs, electronic fund transfer at point of sale (EFTPOS), credit cards, cheques, human tellers, Internet banking, and telephone banking. They found that customer orientations such as convenience, service, technology, change, knowledge, computer, and Internet influenced the usage of different channels. The usage of ATM, EFTPOS, and telephone increased, as customers were more oriented toward change, knowledge, computer, and confidence.

However, to our knowledge, there is no study that examines how young consumers perceive Internet banking in relation to six other banking channels (brick and mortar, ATM, phone banking, wireless application protocol (WAP), EFTPOS, and bank branches in stores) despite the explosive growth in the number of young customers beginning to use Internet banking. However, this information has increasingly become valuable to banks when they use multichannel banking strategies and invest in novel customer service channels such as Internet banking.

2. Methodology

This study was conducted as two main parts. In the first part of the study, the triadic technique was used for construct elicitation. In the second part of the study, each subject indicated which banking medium, if any, were described by the constructs.

2.1. Part I—construct elicitation

The triadic elicitation method was used for construct elicitation. The constructs are the terms that describe how banking channels resemble or differ from each other. A list of the banking channels was developed based on the channels used by Turkish banks. Six main banking channels (brick and mortar, ATM, phone banking, WAP, EFTPOS, and banking centers in the stores) were considered as being important to be compared with the Internet

banking. The main purpose of construct elicitation was to elicit the constructs that were used by the subjects to differentiate the banking channels from each other.

2.1.1. Subjects

A total of 20 subjects participated in construct elicitation. On the basis of the review of previous studies that have used the triadic elicitation technique (Perusse, 1980), it was assumed that all relevant constructs could be elicited from a subset of 20 subjects. The ages of the subjects ranged from 18 to 26, with mean age being 21.8. Among the 20 subjects, 10 were male and 10 were female.

2.1.2. Procedure

Each subject was provided with a list of seven banking channels. The order of banking channels was randomized for each subject to avoid response biases. The subjects were asked to consider the first three banking channels on the list and to mention in which way two resembled and differed from a third. For each triad the subjects were allowed to name as many constructs as they wished. The experimenter recorded all constructs elicited from this first triad before moving on to the next triad. The second triad then included elements 2, 3, and 4. The same procedure was used for determining the banking channels of the following triads. By following this procedure, all the seven banking channels were evaluated during the comparison of five triads.

2.2. Part II—rating tasks

2.2.1. Subjects

A total of 200 subjects were recruited to participate in the second part of the study at the campus of Istanbul Technical University. All the subjects who participated in construct elicitation also participated in the second part. Their ages ranged from 18 to 27, with the mean age being 23.8 with a 5.3 standard deviation. Among the 200 subjects, 100 were male and 100 were female.

2.2.2. Procedure

Each subject was given a list of banking channels and constructs elicited in the first part of the study. Each subject then indicated which banking medium, if any, were described by each construct. The subjects were free to select any number of banking mediums for each construct. The subjects took short breaks as needed. The experimenter was in the same room as the subjects during the session.

2.2.3. Analytical procedures

The responses of the subject were aggregated in a cross-tabulation table and analyzed. Two statistical techniques were used. These techniques were correspondence analysis and cluster analysis. The correspondence analysis was performed to create a perceptual map based on the association between the banking channels and the constructs (Hair, Anderson, Tatham, & Black, 1995).

Although “model free” itself, the results of correspondence analysis are often a useful preliminary to a more structured and traditional multivariate modeling of categorical data. Therefore, cluster analysis was performed to complement the results of correspondence analysis.

The results of cluster analysis provide more detailed information about the distances between the variables and categories because it considers the resulting scores of the variables (banking channels) and categories (constructs) from the corre-

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