

Chapter 6

6. Conclusions and Recommendations

The Internet is an extremely important new technology. It is widely regarded as the third wave of revolution, after the agricultural revolution and the industrial revolution. The Internet has made significant changes to the ways companies are managed and operated and has also diminished entry barriers in many industries, which were mainly due to constraints in time, space, and information access. The financial services industry is currently in the process of a radical deconstruction. New technological forces, created and fueled by the Internet and new wireless communications, such as the wireless access protocol (WAP), have been exploited to reduce time-to-market and distances between buyers and sellers of goods and services.

Forester Research (cited in Deloitte Research, 2000) estimated that there were 400 million consumers online in 2000 as compared to a massive 100 million in 1999. This gives a picture of how Internet has been changing the world. Analysts also expect the number of households using online banking services to increase by 500 percent globally, which suggests that we are just at the beginning of the growth curve in this sector (cited in Deloitte Research, 2000). In Sri Lanka itself a research done by Chanuka Wathegama (2001) showed that Internet users in Sri Lanka in year 2000 were around 5% of total population.

Although the number of Sri Lankans going online is considerably small as compared to other nations across the globe, banks in Sri Lanka should not lag behind the changes of the technology especially since the Sri Lankan financial industry has open its doors to foreign banks from 1980. To face the competition from globalization, local domestic banks must fully utilize the Internet to improve their efficiency and profitability.

Adding an Internet channel to the Banking system is a double-edged strategy. While it obviously costs money in the short run, it is as yet unclear whether the optimistic foresights about the long-run profit and growth potential will ever materialize. Yet,

managers of established banks in the Sri Lankan banking sector feel pressured to decide now on how to best respond to this market discontinuity.

6.1 The issues preventing the growth of Internet banking in Sri Lanka

Low internet penetration level can be one of the main reasons that prevent the proliferation of Internet Banking in Sri Lanka. It is interesting to find the reasons for this low proliferation level.

Sri Lanka was the first South Asian country to have commercial and unrestricted internet facilities , seven years ago in April 1995 , while Pakistan joined in July the same year, and India in August. The government has never controlled local Internet access. While governments of many communist and Middle East countries were trying hard to control free internet access for political reasons, the Sri Lankan government treated developments in the internet arena with an open mind. This resulted in an exponential growth in the internet industry, which grew from 273 access points and just two Internet Service Providers (ISPs) in 1995 to more than 50,000 access points and 30 ISPs in the year 2001.

In these circumstances, it is disturbing to note a gradual decline in Internet proliferation patterns during the past three years. Market saturation is not an unusual phenomenon, but if this happens before the product reaching a maturity stage, it can be a warning sign. This cannot be a sign of market saturation as the Internet penetration levels in Sri Lanka are still very low. Even in countries like US, where more than 50% of the households are now equipped with Internet connections, it still proliferates. In neighboring India and Bangladesh too, Internet growth rate are much higher than our own. If one Internet connection is assumed to be shared by two users on an average basis, roughly Sri Lanka has one Internet user for every 200 in the population. This can be hardly be called a market saturation situation.

This means even after seven years of providing Internet access on commercial basis, more than 99% of the Sri Lankan population do not surf, and quite probably more than 95% have never used Internet facilities (or quite probably never used a PC!). In addition, more than 95% of the Internet connections have been given to users within Colombo district. Considering the fact that Sri Lanka could boast of one of the highest educated population in Asia, the Sri Lankan Internet market cannot be saturated that fast. So the only conclusion which can be arrived at is that even after seven years Internet has not been selected by a larger section of the population of Sri Lanka as a communication medium. (In contrast, the number of annual TV licenses issued in 1985, seven years later TV was introduced to Sri Lanka was as high as 326,000)

The new e-Sri Lanka program looks very much promising and hopefully it will help a lot to overcome the dark cloud over the internet industry in Sri Lanka. Under the e-Sri Lanka concept there are four major areas under development:

- Information infrastructure
- Human Resources
- E-Government, E-Society
- e-Laws, IPR

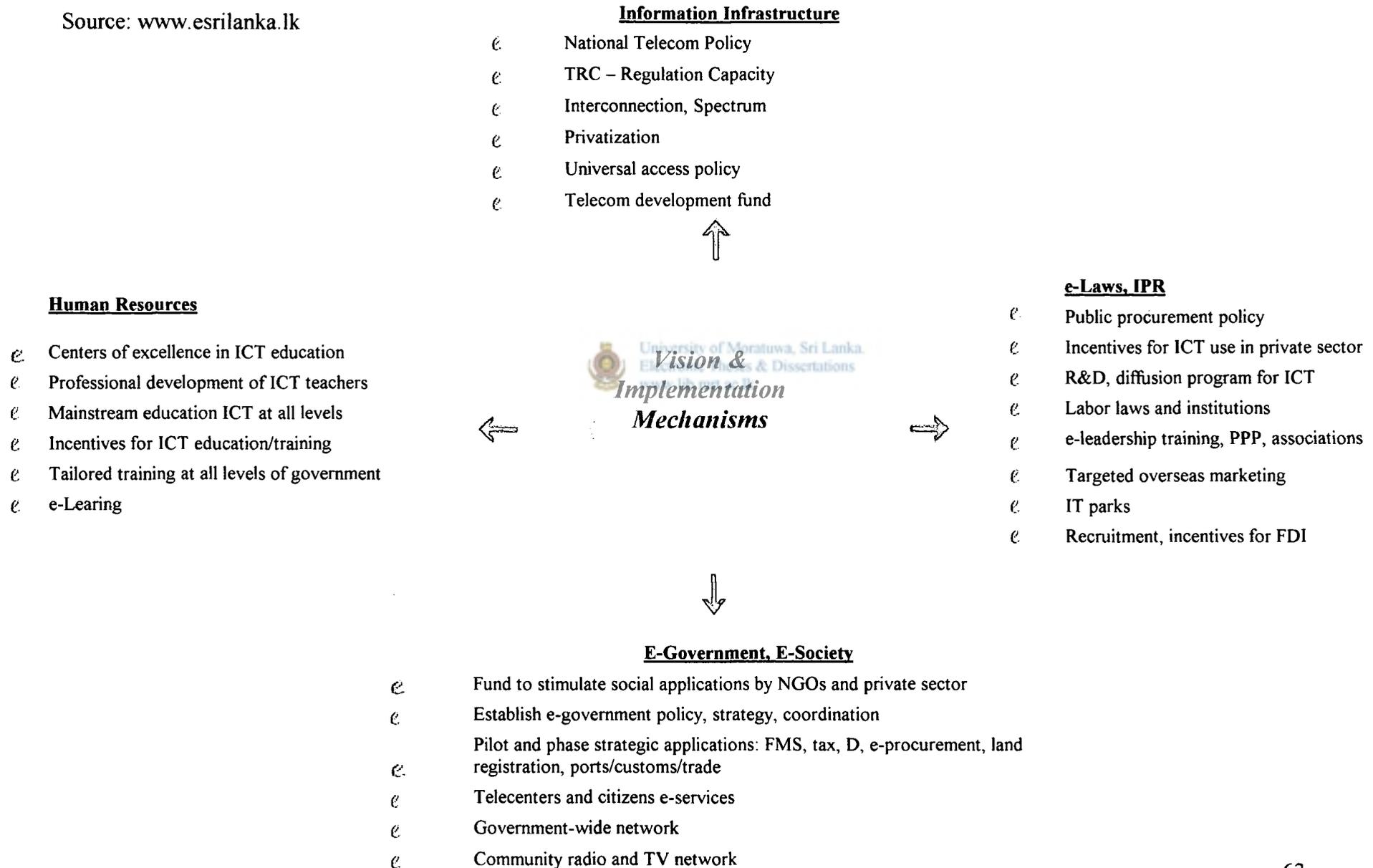


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Figure 8 provides a detail list of areas concentrated under the main topics. Sri Lankan government is fully backing the project. This project will be able to boost the internet industry in Sri Lanka.

Figure 8: eSrilanka vision & Implementation

Source: www.esrilanka.lk



6.2 Internet banking with traditional banking

Internet delivery channel and the traditional delivery channel are not mutually exclusive. Checking an account balance, transferring funds, paying bills and applying for credit cards do not require a personal contact or a large physical space, and hence, are well suited for delivery over the Internet channel. But setting up a new account, applying for a business loan, retirement planning, closing a mortgage and other complex transactions often require a secure physical space and/or person-to-person communication.

Furthermore, getting cash is impossible over the Internet and requires either branches or ATMs. Because some banking transactions are more conducive to some channels than others, and because some customers prefer certain delivery channels, most (but not all) banks deploy a combination of delivery channels. However, bankers should strive to integrate all these new delivery channels and traditional channels into a coherent whole.

The traditional person-to-person channels need to be reinvented as sales centers for complex products and for cross-selling products to more profitable customers. Routine transactions and sales of less complex products should be transferred to alternative channels such as the Internet or Automated Bank Center. It may not be easy to achieve this goal, as customers are accustomed to traditional delivery channels. Nevertheless, given time, the Internet would become a major component of current delivery channels. This is because the younger generation, who are considered to be more technology savvy, is expanding and older customers are learning to get used to the Internet.

6.3 Recommendations

It has been more than four years since Union Bank gave its endorsement on Internet banking in Sri Lanka, and all ready 5 of the domestic anchor banks have been operating full real-time transaction websites. The more recent introducers of Internet banking are more involved in low complexity electronic information products or outbound-only information flow. Some of these activities include displaying interest-rate sheets, loan descriptions, product information, company accounts, company backgrounds, job opportunities, press releases and information on the address of the bank's branches

around the country. This serves as an informative site in promoting the banks as well as increasing awareness to consumers of their current products by building brand preferences.

It is also observed that the websites of these banks are offering a moderate complexity product that applies to communications products such as e-mail and credit card applications. These banks are currently at Level 1-Basic Presence and are gradually shifting towards level 2-Prospecting of the Deloitte model of Internet Banking (Deloitte Research, 2000).

As an extension to the survey of five banks, an e-mail test was run on the remaining five anchor banks to test the effectiveness of banks in replying emails. It is interesting to note that none of the emails sent were replied, meaning that these banks score 0 on this count. This raises the issue of achieving effective communication with banks. The purpose of giving an email address itself is being defeated. Beside, this could also lead to reducing the bank's image.

Security remains the main concern of Internet banking. Security should always come first as any mishap would cost the bank severe losses and jeopardize its reputation as well as reduce public confidence towards Internet banking. To make sure that there is no room for mishaps, all banks that provide Internet banking should operate at the highest level of security. These banks depend on Secure Sockets Layer protocol as well as 128-bit encryption to encrypt data entering the bank server and verify the bank server to the user.

It is noticeable that local domestic banks have established this new delivery channel as a competitive tool and a money saver rather than a revenue earner. This is mainly because online market for "traditional" services is limited. Nevertheless, the Internet promises more potential than mere cost reduction. Some may regard the Internet era as full of chaos but chaos brings changes as well as opportunities for banks to venture out from their traditional activities.

Therefore, delivery channels provided by the Internet should not be seen just as a means of cost-saving but should be fully utilized to add to the profitability of the banks as well

as to help banks meet the increasing demand and expectation of consumers by offering more banking products from their foray of online and offline possibilities.

One of the opportunities for banks is setting up a website as a platform for business-to-business marketplace, which brings together corporate buyers and sellers. This marketplace expands the choice of customers, gives banks access to new customers and reduces overall transaction costs. Although digital marketplace is still in embryonic stages of development, two different exchange models are emerging. These are the vertical exchange, designed to meet industry specific needs, and the horizontal exchange, designed to meet common business needs.

Whilst little had been done in this space to date in Sri Lanka, it is evident that banks are playing the 'wait and watch' game until financial transactions becomes clearer. In fact, one of the leading bankS is developing its web portal towards the path of digital marketplaces. Sri Lankan banks are following the lead of banks from other parts of the world to try moving up the value chain by getting more involved in the exchange of non-financial information. Banks are also collaborating with non-financial service providers in order to offer a broader range of non-traditional services such as logistics and distributions.

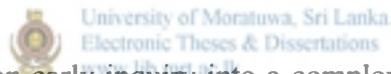
This move is aimed at retaining customers and satisfying customer demands. At the same time, it allows banks to maintain their control of the payment space while allowing broadening of service offerings. These also need new resources of service revenues as some of the bank's lucrative assets bleed off to mutual funds, insurers etc.

While technology offers new opportunities to banks, it also brings new challenges, especially the increasing competition from non-banks and new players like technology companies. The central role of banks in the payment system is under fierce attack from these new players offering electronic bill presentment and payment.

Transposing, conceived by Microsoft and First Data, estimates that consumers today spend two hours per month paying bills that could be cut in half (Deloitte Research,

1999). Online bill-payment promises benefits for both payee and payer. Payee would save postage fees, printing fees as well as a faster payment cycle whereby the payer will experience much convenience. These factors will increase the popularity of the online payment system. Banks should act fast before they lose ground. This is similar to a battle that banks fought and lost, over credit card transactions. When credit card transactions become electronic, merchants found that third-party providers usually did the processing better and cheaper. Failing to act fast would cut the banks out of the chain and cause banks to lose their special relationship with customers, especially corporate customers. Considering all the facts, banks ought to be proactive to maintain their role in the payment system. After all, banks, relative to all other parties involved, have the most arrows in their quiver when it comes to being a successful payment merchant. They have large operation center environments in their back offices, which can handle not only large volume transactions but also micropayments. Lastly, the most important factor is that banks remain the most trusted link in the chain.

6.4 Limitations



This research represents an early inquiry into a complex phenomenon (because Internet banking in Sri Lanka is still in its early days). As such, it is easy to list several limitations of the study, which offer immediate avenues for future research.

- First and foremost, seven potential drivers of Internet channel success is focused upon. These drivers cannot describe the performance implications of Internet channel additions exhaustively. Additional research should identify other factors involved in the success of Internet banking strategies. For example, researchers may want to study how the quality of a bank's relationships with its traditional customers affects an Internet banking channel's success. More comprehensive specifications including traditional channels constructs such as trust and commitment could then be developed. Moreover, in addition to banks, introduction-strategy, and marketplace characteristics, characteristics of the Internet banking addition itself may be important determinants of the success of a

new entry. Unfortunately, the questioner -study methodology used was not much powerful enough to analyze the hypothesis with out the data from the banks. Future research could identify the role of Internet banking characteristics in the success of Internet banking strategies.

- A second limitation of the study may be the operationalization of (some of) the variables included in the model. For example, because there are no direct secondary measures of channel power, required a search for externally observable variables. Also the non availability of more precise data on advertising support is a drawback of the study. Ideally, advertising support is measured as the budgetary support that existed at the time the Internet banking channel was announced. However, in view of the time that has elapsed since many of the Internet additions studied here, it was not possible to obtain precise data. In spite of these limitations, the results clearly uncovered significant relationships since the operationalizations of channel power and advertising support relate in the manner predicted by theory.
- Third, the empirical results reflect Internet banking is only one industry within a Sri Lankan setting. Testing the hypotheses with data from multiple industries would necessitate a further expansion of the model to recognize sources of variation across industries.
- Fourth, considering the performance implications of Internet-banking mainly from the customer point of view because of the limitations encountered, it would not be fair enough to view it in this manner , Because if an analysis is done with out the exact figure and values from the concerning parties it would appear as trying to find a needle in a hay stack in darkness. However, the intended strategies may be modified during implementation, and also post-entry implementation decisions will clearly determine the ultimate success of the new channel. It would be helpful for future researchers to track a set of announced decisions, determine the outcome of those decisions, and attempt to assess when and by how much



market valuation changed in response to the aforementioned modifications and post-entry actions. Such research would measure the effectiveness of strategy formulation as well as implementation. This issue certainly warrants further study.

In sum, evidence is accumulating that the Internet is here to stay, and that it is rapidly evolving into a real commercial medium. The challenge is to get beyond the hype, and to examine the Internet as a viable distribution channel – one with unique capabilities but also with limitations.

6.5 Develop Strategies to create a Fast Growth in Internet Banking Sector

1. Highlight the salient features expected by the users- high security, 24 hour availability etc.
2. Use geographically differentiated Marketing
3. Focus Marketing to Social and Professional Groups
4. Maintain high service quality, Reliability and Professionalism in customer handling.
5. Continuous innovation novelty and creativity in Internet Banking products
6. Provide financial incentives for migrating to Internet Banking from Traditional transaction channels
8. Provide more means of ICT education at school and undergraduate levels,



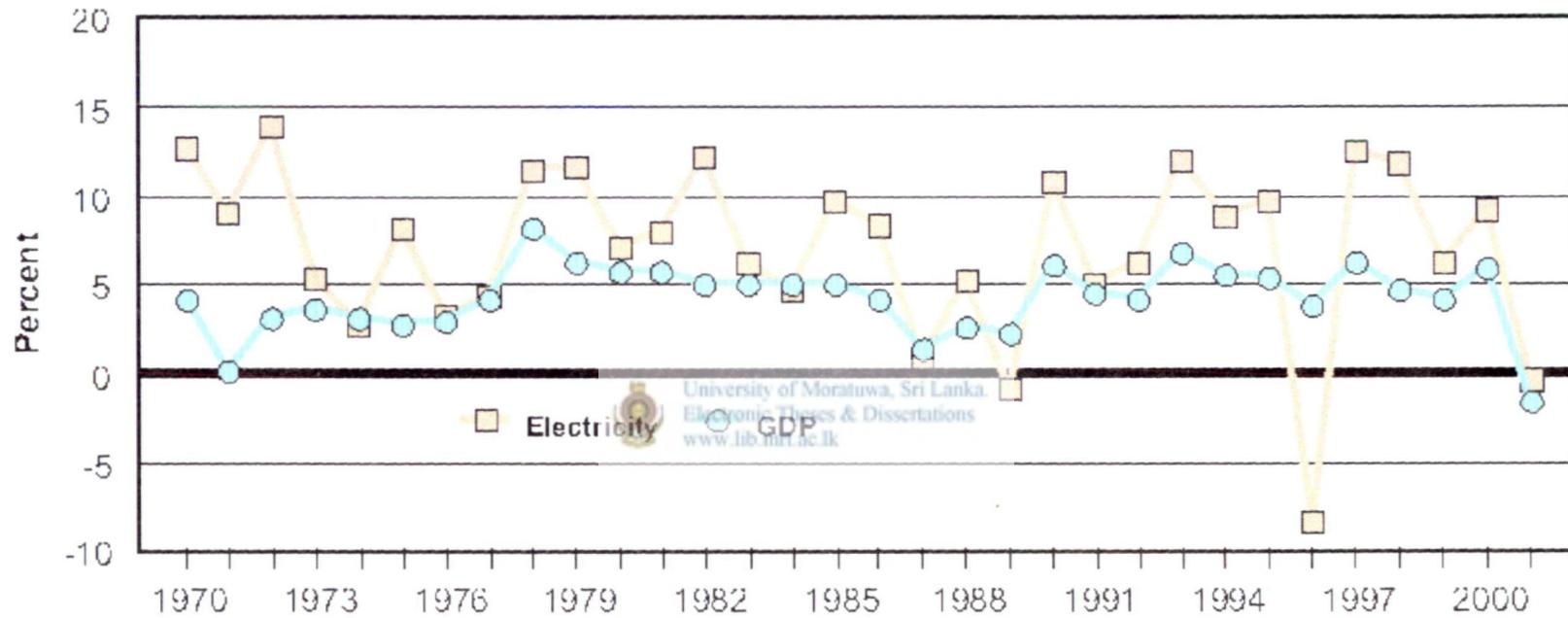
Telecommunication developments (i.e. from 1990-2002)

Category of Service	Operator	Subscribe Base													
		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	
Fixed Access Telephone	Wire Line	121,388	125,834	135,504	157,774	180,724	204,350	254,522	315,241	455,598	580,199	653,144	708,200	768,620	
	WLL							527	26,381	67,931	88,914	114,267	118,995	114,488	
	Total	121,388	125,834	135,504	157,774	180,724	204,350	255,049	341,622	523,529	669,113	767,411	827,195	883,108	
Cellular			1,800	2,644	14,687	29,182	51,316	71,079	114,888	174,202	256,655	430,202	667,662	931,580	
Total telephone Subscriber base		121,388	127,634	138,148	172,461	209,906	255,666	3,260,178	456,510	697,731	925,768	1,197,613	1,494,857	1,814,688	
Teledensity percentage	Fixed	0.7	0.7	0.8	0.9	1.0	1.1	1.2	1.4	1.8	2.8	3.5	4.0	4.4	4.7
	Cellular	0	0	0	0.1	0.2	0.3	0.4	0.6	0.9	1.3	2.2	3.6	4.9	
	Total	0.7	0.7	0.8	1.0	1.2	1.4	1.8	2.4	3.7	4.8	6.2	8.0	9.6	
Data Communications	Internet & Email							2,504	10,195	18,984	25,535	40,497	62,159	75,000*	
Public Pay phone Booths								3,002	3,682	4,761	5,799	8,222	6,801	6,681	
Radio Paging								10,721	10,829	10,511	10,300	7,009	6,178	3,541	
Trunk Mobile Radio															

Appendix 1.

Source: Telecommunication Regulatory Commission of Sri Lanka

Pattern of GDP & Electricity Demand Growth Rates, 1970-2001



Electricity Elasticity w.r.t. GDP in 2000 is 1.6 : Years of Power Cut - 1973.1980.1981.1983.1984.1987.1992.1996 & 2001

Appendix 2

Source: Ceylon Electricity Board, "Statistical Digest 2001", 2002 www.ceb.lk

Annexure 1

		Bank 'A'	Bank 'B'	Bank 'C'	Bank 'D'	Bank 'E'
	TOTAL POINTS	31.5	30	23	22	22
	RANKINGS	****	****	***	***	***
<u>EASE OF USE</u>						
1	Website address catchy and easy to remember	1	1	1	1	1
2	Other language in addition to English	0	0	0	0	0
3	Require 128-bit encryption	1	1	1	1	1
4	Clear instructions	1	1	1	1	1
5	Online banking demo	1	1	1	0	0
6	Require double authentication: user ID & password	1	1	1	1	1
7	Clear error messages	1	1	1	1	1
8	Remind customer to change password regularly	0	0	0	1	0
9	Comprehensive FAQ	1	1	1	1	1
10	Explains how to keep data safe	1	1	1	1	1
11	Online transaction hours	1	1	0.5	0.5	0.5
<u>FEATURES</u>						
12	Register online	0	0	0	0	0
13	Able to check account balances	1	1	1	1	1
14	Able to check credit card balances	1	1	1	1	1
15	Able to check foreign account balances	0	0	0	0	0
16	Able to check loan balances	1	1	0	0	0
17	Able to change password online	1	1	1	1	1
18	Able to make immediate bill payment	1	1	1	1	1
19	Able to schedule bill payment for a later date	1	1	0	0	0
20	Able to pay credit cards issued by same banks	1	1	1	1	1
21	Able to repay loan	1	0.5	1	0	0

22	Able to apply telegraphic fund transfer	0	1	0	0	0
23	Transfer between accounts at different branches	1	1	1	1	1
24	Transfer funds from your bank to another bank	0	0	0	0	0
25	Track at least 50 transaction per account	1	1	1	1	1
26	Transaction records available for minimum two months	0	1	1	1	1
27	Immediate open payment to non account holder	1	1	0	0	0
28	Fixed deposit placement	1	0	0	0	0

EXTRA MILE SERVICE

29	Email support	1	1	1	1	0
30	24 hour phone support	0.5	1	0.5	0.5	0.5
31	Phone support is helpful	1	1	1	1	1
32	Phone number easy to find	1	1	1	1	1
33	Online stock broking	1	0.5	0	0	1
34	Able to purchase mutual funds	0	0	0	0	0
35	Online marketplace	1	0	0	0	0
36	Online insurance	1	0	0	0	0
37	Able to re-order cheque online	1	1	1	1	1
38	Able to change address	1	1	1	1	1
39	Credit/debit card applications	1	1	0	0	1
40	Hire purchase and housing loan applications	1	1	0	0	0

6. Please give information about the commencement date of the above mentioned services in part 2.

Internet Services	Establishment
(1)	
(2)	
(3)	
(4)	
(5)	
(6)	
(7)	
(8)	

7. What is the advertising expenditure on internet services

Year	Advertising expenditure Rs.



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8. Number of customer who have used the above services over the years.

Year	No. Customers

Date:.....

Annexure 3

Questioner for target group 2

Customer Survey

1. Are you using internet for the Banking requirements?

Yes	No

If your answer is **No**, please select the suitable reason/s from the table given below

Otherwise

Go to section Q2

If your answer is **Yes**, please complete the hole questioner

Factors Affecting Adoption of Internet Banking	
Accessibility Internet Access Internet Connection speed	
Reluctance Willingness to adopt technology enhancement Level of awareness of current trends Attitude towards change	
Costs Cost of Computers Cost of Internet connection	
Trust in One's Bank Banks reliability in correcting erroneous transactions Trust in the bank to compensate for losses due to security infringements Banks response rate to queries	
Security Concerns Clear and understandable instructions Security of Internet transaction Length of Internet experience	
Convenience Time saving Convenient way of doing bank transactions	
Ease of Use Ease of performing Internet banking transaction Ease of Navigation in the banks site	

2.If yes please state the name of the bank and services that are been used?

Name of the Bank	Internet Services	
(a)	1	<input type="checkbox"/>
	2	<input type="checkbox"/>
	3	<input type="checkbox"/>
(b)	1	<input type="checkbox"/>
	2	<input type="checkbox"/>
	3	<input type="checkbox"/>
(c)	1	<input type="checkbox"/>
	2	<input type="checkbox"/>
	3	<input type="checkbox"/>

1. Account Services
2. Bill Payment Services
3. Credit Card Payment gateway Services

3.What is the web channel experience?

Worst (10%-20%)	Bad (20%-40%)	Moderate (40%-60%)	Good (60%-80%)	Best (80%-100%)
(a)				
(b)				
(c)				



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4.What is your idea about the web site or what is the channel experience ?

5.How do you got to know about the services?

Source	Bank (a)	Bank (b)	Bank (c)
1. TV/Radio Advertisements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Magazine /News paper Advertisement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Hand Brochures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Wall Posters	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Street promotion campaign	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. While Browsing the web	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. From a Friend	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Inquiring from the bank	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Any other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

6. Do you satisfied with the security provided to your Internet banking transactions?

Yes	No

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