

**ELECTRONIC BANKING AND PERFORMANCE OF BANKS IN NIGERIA  
(2005-2014)**

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(ADP11/12/H/2710)**

**A THESIS SUBMITTED TO THE DEPARTMENT OF MANAGEMENT AND  
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Date

### DEDICATION

This thesis is dedicated to ALMIGHTY GOD, the source and sustainer of life, for his grace, wisdom and strength, who has made this programme a success. All glory be to God.

This also dedicated to my late Dad, Barrister F.C. Mordi. May his gentle soul continue to rest in perfect peace, amen.

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## ABSTRACT

The study examined the effect of electronic banking on performance of banks in Nigeria for the period of 2005–2014. It also analysed the problems and challenges associated with e-banking and determined the degree of adoption of e-banking in Nigeria. These were with the view of helping the financial statement users to make informed and balanced economic decisions.

Data were collected from both primary and secondary sources for this study. The choice of the period (2005-2014) is hinged on the fact that there was no meaningful recognition of e-banking services in our financial system until 2015. The population for the study comprised members of staff of the 15 Deposit Money Banks (DMBs) in Nigeria that were purposively selected for the study based on availability of complete data covering the sample period as at 2014. Two key personnel (operation manager and e-banking officer) directly involved in e-banking operations were purposively selected from each of the 15 DMBs. Data on problems and challenges associated with e-banking in Nigeria were obtained through the administration of structured questionnaire. Secondary data on bank investment in Information Technology, sales growth attributable to IT investment, total assets, total equity, returns on equity and age were sourced from annual financial reports of Deposit Money Banks. Descriptive statistics such as the mean, median, standard deviation and inferential statistics such as pool ordinary least squared with fixed effect and random effect were used.

The result showed that Deposit Money Banks are posed with problems and challenges associated with electronic banking such as the capital intensiveness of electronic banking, e-banking entails technical expertise, knowledge gap affecting the patronage/usage of electronic banking, the users of e-banking prone to fraud, electronic banking carry heightened legal risks, incessant service failure discourages the continuous use of electronic banking products. Also,



there is relative increase in the degree of adoption of electronic banking based on the years that were reviewed. The effects of electronic banking on performance of banks in Nigerian in terms of profitability indicated a negative result.

The study concluded that electronic banking does not have effect on profitability of banks in Nigeria. The justification could be as a result of huge amount of money incurred on electronic banking, capacity planning to address increasing transaction volumes and provision of critical infrastructure.

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## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background to the Study

Despite the fact that electronic banking operation is fast gaining acceptance in Nigerian banks, it does not assuredly signify total acceptance by customers patronizing the banks. This is evidenced by the continuous long queues in the banking hall despite the availability of Automated Teller Machines, mobile and internet banking services. Business transactions are still more cash based rather than via electronic channels. Also, it has been observed that customers are not keying into the use of electronic channels due to financial loss attributable to fraudulent transactionseven as security over electronic banking transactions has improved over time.

Financial services industry over time has opened to historic transformation that can be termed as e-developments which is advancing rapidly in all areas of financial intermediation and financial markets such as e-finance, e-money, electronic banking (e-banking), e-brokering, e-insurance, e-exchanges, and even e-supervision. The new Information Technology (IT) is turning into the most important factor in the future development of banking, influencing banks' marketing and business strategies. In recent years, the adoption of e-banking began to occur quite extensively as a channel of distribution for financial services due to rapid advances in IT and intensive competitive banking markets (Mahdi and Mehrdad, 2010;). The driving forces behind the rapid transformation of banks are influential changes in the economic environmentwhich includeinnovations in information technology, innovations in financial products, liberalization and consolidation of financial markets, deregulation of financial inter-mediation. These factors make it complicated to design a bank's strategy, which process is

threatened by unforeseen developments and changes in the economic environment and therefore, strategies must be flexible to adjust to these changes.

The e-banking is transforming the banking and financial industry in terms of the nature of core products /services and the way these are packaged, proposed, delivered and consumed. It is an invaluable and powerful tool driving development, supporting growth, promoting innovation and enhancing competitiveness (Gupta, 2008; Kamel, 2005). Banks and other businesses alike are turning to IT to improve business efficiency, service quality and attract new customers (Kannabiran and Narayan, 2005). Technological innovations have been identified to contribute to the distribution channels of banks and these electronic delivery channels are collectively known as electronic banking (Auta, 2010).

The evolution of banking technology has been driven by changes in distribution channels as evidenced by Automated Teller Machine (ATM), Phone- banking, Tele-banking, Personal Computer (PC)banking and most recently internet banking (Auta, 2010). E-banking is the term used for new age banking system. E-banking is also called online banking and it is an outgrowth of Personal Computer banking. E-banking uses the internet as the delivery channel by which to conduct banking activity, for example, transferring funds, paying bills, viewing checking and savings account balances, paying mortgages and purchasing financial instruments and certificates of deposits. It is difficult to infer whether the internet tool has been applied for convenience of bankers or for the customers' convenience. Ultimately, it contributes in increasing the efficiency of thebanking operation as well providing more convenience to customers. Without eveninteracting with the bankers, customers transact from one corner of the country to anothercorner.

Electronic banking has experienced explosive growth and has transformed traditional practices in banking (Gonzalez, 2008). As per prediction of Maholtra and Singh,(2007), the e-banking is leading to a paradigm shift in marketing practices resulting in high performance in the banking industry. Delivery of service in banking can be provided efficiently only when the background operations are efficient. An efficient background operation can be conducted only when it is integrated by an electronic system. The components like data, hardware, software, network and people are the essential elements of the system. Banking customers get satisfied with the system when it provides them maximum convenience and comfort while transacting with the bank. Internet enabled electronic system facilitate the operation to fetch these result. According to Christopher (2006), electronic banking has become an important channel to sell the products and services and is perceived to be a necessity in order to stay profitable.

There is a growing interest in understanding the users' experience (Pyun, 2002), as electronic banking is observed to be a larger concept than user satisfaction. From this perspective, assessing the user experience is essential for many technology products and services. Customers have started perceiving the services of bank through internet as a prime attractive feature than any other prime product features of the bank. Customers have started evaluating the banks based on the convenience and comfort it provides to them.

Explosive growth in Information and Communication Technology (ICT) have removed manual digital divide and turned business sphere to electronic world (e-world). Specifically, technological innovations have led credence to global transformation of operational dimension of traditional banks over a decade ago. Internet technology has brought about a paradigm shift in banking operations to the extent that banks embrace internet technology to enhance effective and extensive delivery of wide range of value added products and services. Consequently, financial

institutions in Nigerian recognize electronic banking to be the most effective means of distinguishing themselves from other competitors

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