PDF - EFFECT OF E BANKING ON BANK PROFITABILITY: A STUDY OF GUARANTY TRUST BANK PLC ENUGU RANGERS' AVENUE - researchcub.infoABSTRACT

This study investigated the Returns on Equity and Returns onAsset of Guaranty Trust Bank following the adoption of E-banking in Nigeria: astudy of Guaranty Trust Bank Plc 2014-2017. The main objective of the study isto examine the effect of e-banking on profitability of commercial banks inNigeria using Guaranty Trust Bank (GTBank) plc as a study. One specificobjective is to examine to which extent e-banking influences ROA. Threehypotheses were formulated, three research questions. The research design usedwas ex post-fact. The data was sourced from the annual report of Guaranty TrustBank plc. Regression analysis was used to analyze the data. The analysis wascarried out using Statistical Package for Social Sciences (SPSS). One of thefindings of this work is that e-banking has no significant impact on Return onAsset. In conclusion, this study has provided e-banking has not improvedReturns on the Equity and Return on Assets of GT Bank. I recommend that thebanking industry should adjust to full and effective deployment of InformationTechnology (IT) due to its sophistication since the technology is irreversiblewith relative perceived advantage.

CHAPTER ONE

INTRODUCTION

Background to the Study

Internet is a fast spreading service which allows customersto access account-specific information and possibly conduct transactions from aremote location- such as at home or from the work place. ATM cards, debitcards, credit cards etc. have eased up human life to a point that life todaywould have been hard and stressful.

The increased acceptance and penetration of internet haveredefined the ground for retail banks. The retail banks are now offering theirservices mostly through their internet branches. However, the effect ofinternet banking on bank profitability has remained an understudied issue.

Daniel, (1999) cited in Al-hajri, (2008) describes internetas the provision of banking services to customers through internet technology.According to Basel Committee on banking, (2008), internet banking is defined asto include the provision of retail and small value banking products andservices through electronic channels as well as a large value electronicpayment and other wholesale banking services delivered electronically. ThoughAl-samadi and Al-wabel, (2011) expressed that the definition of internetbanking varies among researchers partially because internet banking refers toseveral types ofservices through which bank customers can request informationand carry out banking services.

However, the change in the banking industry in Nigeriastarted with the advent of electronic devices to assist in carrying out qualityservices to the customers. The introduction of these electronic devices, hasincreased competition in the industry, and has gone a long way to reducecustomers' waiting time for banking transactions. This invention is brought inby the use of computers and other networks. In Nigeria, the networking startedwith the LAN (Local Area Network), MAN (Metropolitan Area Network) and later,WAN (Wide Area Network).

Generally, the automation of banks makes transactions anddata processing very easily reached for quick management decision making. Thisled to another level of benefit which brought in what is today referred to asinternet. Internet Banking helps the banks to speed up their retail andwholesale banking services. The banking industry believes that by making use ofthe new technology, banks would improve customer service level and tie theircustomers closer to the Yang and Whitefield, (2005). Simpson, (2002) assertedthat what actually motivates the investment in internet banking is largely theprospects of minimizing operating costs and maximizing operating revenue.

Nevertheless, the adoption of Internet Banking has broughtchallenges to the industry in terms of risk exposure. The volume of depositshas increased as well as fraudulent practices experienced by Nigerian bankssince its adoption in the economy. This is why Ovia, (2001) posits thatNigeria's banking scene has witnessed remarkable changes, especially in themid-80s and these have been seen in the large volume and complexity in productor service delivery, financial freedom and business process re-engineering. Theeffectiveness of using Information Technology in banks therefore cannot be putto doubt. The fact remains that the idea of using IT in banks is necessitatedby the huge amount of information being handled by banks on a daily basis. Onthe side of the customer, cash is withdrawn or deposited; cheques are depositedor cleared, statement of accounts are provided, money transfers and so on. Atthe same time, banks need up-to-date information on accounts, credit facilitiesand recovery, interest, deposits, charge, income, profitability, indices andother control of financial information.

However, researchers have not given much attention to thischange caused by internet banking with regard to profitability performance ofbanks. The changes in industry in Nigeria occasioned by the idea of internetbanking has forced Nigerian banks to invest more on assets to meet up withcompetitive positioning. Since many earnings have been retained to meet up thisobligation, shareholders have been denied dividend with the anticipation offatter future dividend.

The banking software which is usually improved on a shortterm basis causes huge financial costs to the banks. To the capital providers,they expect extremely large returns from the project if the internet isadopted. Annual financial reports of Nigerian banks in recent years have shownthat dividend returns are dwindling while other performance indicators seem tobe weak contrary to the expectation of the shareholders or investors.

Generally, there appears not to be improvement on banks'return on equity and assets as speculated.

1.2 Statement of Problem

A great majority of the recent works on electronic money andbanking suffers from a narrow focus. It usually ignores internet banking inevery way and equates electronic money with the substitution of currency. Forinstance, Freedman, (2000) put forward that e-banking and electronic moneyconsists of three devices; access devices, stored value card, and networkmoney. Internet banking is simply the use of new access device and is thereforeignored.

Electronic money is the sum of stored value (smart) cards andnetwork money (value stored on computer hard drives). Within this constrictedroom for internet banking and electronic money, there are however many researchthat addresses one or more of the challenges facing it. Santomero and Seater,(1996), Prinz, (1999) and Shy and Tarkka, (2002) and many others have producedmodels, that ascertain conditions under which different electronic paymentssubstitute for money. Most of these models show that there is at least thepossibility for electronic substitutes for currency to emerge and succeed on alarge scale, depending on the features of the various technologies as well asthe trait of the potential users.

Friedman, (1999) point out that internet banking presentsthe chance that a totally different payment system, not under the control ofthe Central Bank may arise. King, (1999) argues, that today computers make itat least possible to avoid the payment system altogether, instead using directbilateral clearing and settlement.

Objectives of the Study
The main objective of this study is to examine the effect ofinternet banking on profitability of commercial banks in Nigeria, usingGuaranty Trust Bank (GTB) plc. as a case study. The specific objectives of thestudy are:

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