

# The Impact of Electronic Banking on the Competitiveness of Commercial Banks in Zimbabwe (2014-2015).

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## Abstract:

*The purpose of the study was to investigate the impact of e-banking on the competitiveness of commercial banks in Zimbabwe. With the world experiencing a global electronic revolution where almost every business transaction can be done through electronic means, Zimbabwean banks have not been left out. The rise of e-banking in Zimbabwe poses a challenge on the competitiveness of commercial banks. The study focused on the impact of e-banking on traditional banks' market share growth, profitability and customer satisfaction. A descriptive design was employed and a sample of 100 e-banking customers and 100 commercial banks' staff was used in this study. The study was conducted in the capital city, Harare. Questionnaires with closed questions were used to gather primary data. The research found out that the establishment of electronic banking has brought about an increase in bank profits due to a decline in the operating costs as well as an expanded market base. The study found out that convenience of e-banking services is the major reason for customer satisfaction. The research also found out that banks have put in place strategies including increasing ATMs, integrating with mobile telecommunications firms as well as building strong customer relations as means to minimize the impact of e-banking on their performance and competitiveness. The study recommended that commercial banks should expand their services to remote areas such as the rural areas.*

**Key Words:** Electronic banking, Internet, Commercial banks, Competitiveness, Customer Satisfaction, Profitability

## 1.0 INTRODUCTION

The growth in modern technology has seen a number of changes taking place in the traditional banking system in Zimbabwe. According to Kufandirimbwa (2013), the banking industry has developed from traditional "brick and mortar" to Internet banking. The Institute of Bankers in Zimbabwe (IOBZ, 2008), has observed that the emergence of the Internet and expansion of Telecommunications in Zimbabwe has given birth to a new brand of banking in the form of electronic banking commonly known as e-banking. Using a PC with an internet connection, customers are able to make transactions on their traditional accounts such as cash withdrawals, transfers from one account to the other, payments of utility bills, viewing and printing of statements, request for cheque books etc., in the comfort of their homes (IOBZ 2008).

The emergence of mobile money products in Zimbabwe (Ecocash, One Wallet and Telecash) has threatened commercial banks survival and profitability pushing them to rethinking adaptive strategies (Karombo, 2014). The growth in technology has brought a complete revolution in the service delivery of institutions. According to a research by Kufandirimbwa (2013), money used to move from one point to another through traditional channels. This service now seems to have been snatched by emerging technological trends. Money used to be sent to a particular location now it is sent to a particular individual irrespective of their location. This is possibly an explanation to why there has been a sudden increase in the call for traditional banks to think outside the box.

According to RBZ (2011), it is estimated that about \$7.4 billion is circulating outside the formal banking sector. This is mainly due to high bank charges and complexities in opening a bank account. This creates a big opportunity for making bigger profits by introducing e-banking which is easier to open, use, manage and control. E-banking also has lower transaction costs (RBZ 2011). POTRAZ (2012) states that 10.9 million out of 12 million Zimbabweans own mobile phones, majority of whom have no access to formal financial services. Many people do not have a bank account, but it is increasingly likely that they will have a mobile phone and this has presented an opportunity for e-banking to fill a gap in the financial services sector and hence opportunities for expanding profitability (Reed et al, 2014).

Empirical evidence shows that most researches were done in the developed stable economic environments and other developing regions outside the Southern Africa sub-region. The developing world provides a rich source of untapped information. The level and landscape of technological advancement in Zimbabwe is particularly unique and calls for a closer investigation. Zimbabwe has the highest rate of literacy in Africa. The economic and financial system of the country had been hindered by an unstable political environment, strict government regulations, liquidity challenges, absence of an effective lender of last resort and poor economic conditions. This creates a gap for the research to find out the exact impact of these technological advancements on the Zimbabwean traditional banking system and which strategies have the banks put in place to mitigate the effects.

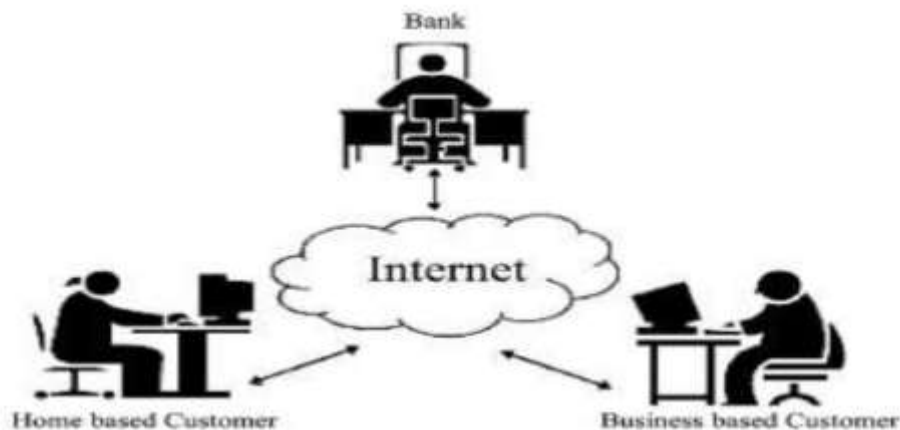
## Research questions

1. What is the impact of e-banking on traditional Zimbabwean commercial banks' competitiveness and profitability?
2. What strategies have traditional commercial banks instituted to minimize the impact of mobile banking in Zimbabwe?

## 2.0 LITERATURE REVIEW

According to the Standard Bank, (2011), internet banking refers to systems that enable bank customers to access their personal and business accounts online, anytime and anywhere. It is further explained as a system that operates twenty four hours a day and the entire seven days of the week. Abor (2007) defines internet banking as giving customers access to their bank accounts via a website and to enable them to enact certain transactions on their accounts, given compliance with stringent security checks. The vast majority of predictions show that online banking will continue to be the most popular method for future electronic financial transactions (Banking Online 2014).

**Fig. 1: Internet Banking Illustration.**



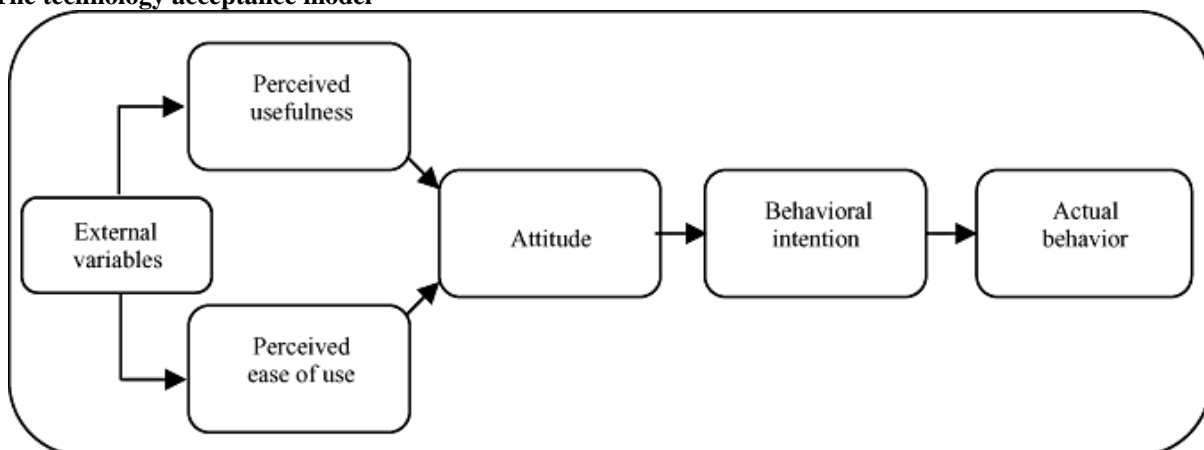
Source: Johns and Perrot (2008)

Jack, Suri and Woodruff (2011) observed that mobile banking plays a bigger role in expanding trade credit and business development as mobile banking eases access to finance to businesses everywhere. Gutske (2014) showed that mobile banking offers many advantages such as good security and drastically cutting down the costs of providing service to customers. According to the Bank of America (2014), mobile banking activities are protected by online banking security guarantee to guide of any fraudulent online and mobile banking transactions. With internet banking accounts can be accessed any time, day or night as long as there is an internet connection.

### 2.1 The Technology Acceptance Model

The technology acceptance model hypothesizes that a person's acceptance of a technology is determined by his or her voluntary intention to use that technology and the intention is determined by the person's attitude and perception concerning that technology's usefulness (Shumaila, et al., 2010). Thus customer satisfaction from the use of e-banking depends on the customer's attitude towards the use of e-banking as well as her perception concerning its usefulness.

**Fig. 2: The technology acceptance model**



Source: Shumaila, et al., (2010)

According to a World Bank survey in 2007, the average penetration for developing countries by the end of 2006 was close to 35%. This shows that the acceptance and use of e banking in developing countries is actually improving. In Zimbabwe the use of e banking is also gaining momentum just like other developing countries.

## **2.2 Empirical Evidence**

**2.2.1** Momeni (2013) conducted a study in Tehran to analyse the effects of electronic banking on customer satisfaction and loyalty. The study used a sample size of 358 e-banking customers of six independent branches and data was collected using questionnaires. It was found out that the ease of use, website design, speed of connectivity and transactions, information security; information content and support services have a significant effect on user satisfaction. The study recommended that bank managers and marketing practitioners should create a close relationship with e-banking customers through creation of e-mail discussion lists, asking customers on how to improve e-banking products as well as offering free internet banking trainings and demonstrations to assist users.

**2.2.2** Nochai's (2013) study looked at the impact of internet banking service dimensions on customer satisfaction in Bangkok, Thailand. Questionnaires were used to collect data. A sample of 450 respondents was used in the research. Results showed that providing 24 hours and 7 days a week service, providing up to date accurate information, fast transaction process and providing online registration were the major factors that have the impact on customer satisfaction. The study recommended that banks should have easy to use websites and there must be a help function.

**2.2.3** The Ajimon and Kumar (2013) study on antecedents of customer satisfaction in internet banking: Technology Acceptance Model (TAM) redefined sought to examine the determinants of technology acceptance among the users. The results of the research showed that demographic variables played a pertinent role in the adoption of internet banking and consequently customer satisfaction. The study showed that of the 406 respondents 76% were male and 24% female. So the research concluded that men adapt faster to mobile banking than women.

**2.2.4** Sumra (2011) investigated the impact of e-banking on the profitability of Pakistan banks. The study also discussed the basic motive of banks to adopt e-banking services. The study used a sample of 12 banks across Pakistan. The study found that e-banking increased the profitability of banks. It showed that e-banking enabled banks to meet their costs and earn profits even in the short span of time. The research also showed that the main motive to adopt e-banking was to increase their clientele base and retain customers.

**2.2.5** Recently Khodaei and Bilandi (2014) conducted a research on the impact of electronic banking on profitability and market share in the Iranian banking industry over the period 2007-2012. The population of the study considered 16 banks. Using two regression techniques, the results showed that e-banking has a marginal impact on profitability and also none of the technological facilities had a meaningful impact on market share. The study highlighted that there was a positive and meaningful relationship between bank size and market share.

## **3.0 METHODOLOGY**

### **3.1 Research Design**

A research design is a framework intended to guide the researcher to achieve research objectives (Schiffman and Kanuk, 2009). Descriptive research design was used in this research study. According to Maxwell (2008), descriptive design describes data and characteristics about the population being studied. Descriptive research design was used because it allowed for the use of questionnaires to capture data and to identify the extent to which e-banking has led to cost reductions, profit maximisation, customer retention as well as market share changes.

### **3.2 Data sources**

The researchers collected data from the banking public concerning their satisfaction from using e-banking services. Primary data was also collected from the banks' staff members on the importance of e-banking to their respective banks. Data regarding the profitability of banks as well as their operating costs were gathered from the banks' audited financial statements.

### **3.3 Sampling design**

Research population is a large collection of individuals or objects that is the main focus of a scientific query (Greener, 2008). The population of this study included all bank staff and customers of the 14 active commercial banks in Zimbabwe headquartered in Harare. Out of the 14 banks, 5 were selected as a sampling frame representing more than 30% of the population. The judgemental sampling technique was used to pick 20 staff members from each bank to participate in the study. A sample of 20 customers per bank were also randomly picked to participate in the questionnaire survey. The total sample size was 200 participants.

### **3.4 Data collection technique**

Closed ended questionnaires were used as a way of gathering information from e-banking customers and bank staff. The method was used for the simple reason of easy data analysis and interpretation. More information was collected over a short period of time thereby enabling the researchers to reduce costs and complete the research on time. A pilot study internal consistency checks were done to determine the appropriateness of the instrument.

## **4.0 FINDINGS**

### **4.1 Response Rate**

Of the 200 questionnaires distributed, 110 were completed and collected, representing a 55% response rate. Such a high response rate was attained because personal administration of the questionnaires was done.

**4.2 E-Banking users by age group**

**Table 4.1: E-banking users by age group**

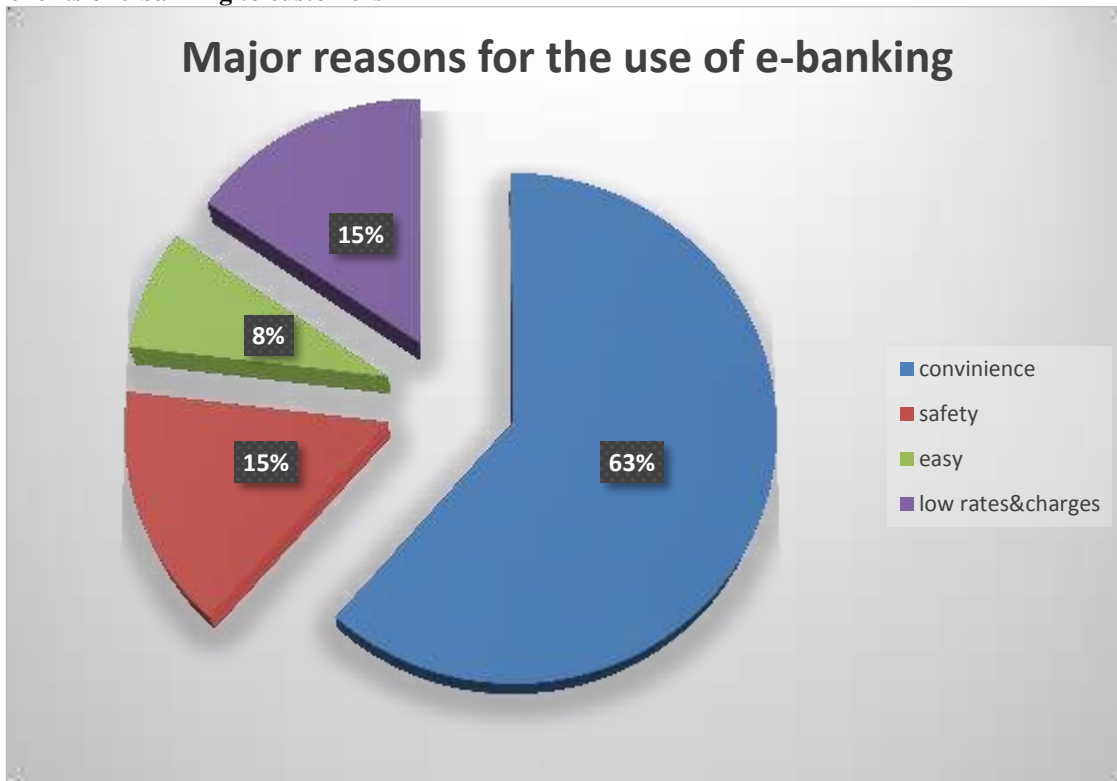
Age group	% of total
Below 25	22%
25-40	58%
41-50	16%
Above 50	4%

Source: primary data 2015 n = 110

Table 4.1 shows that the age group ranging from 25-40 years had the largest number, 58%, of respondents representing the largest number of e-banking users. 22% of the respondents were aged below 25 years (the figure is high considering that they are still the school and college going age); 16% of the e-banking service users were in the 41 to 50 years age group and lastly 4% of the respondents in the above 50 years group. These findings are consistent with Johnson et al (2000) `s findings that the use of e-banking is highest among the young population as compared to the older ones.

**4.3 Benefits of e-banking to customers**

**Figure 4.1 Benefits of e-banking to customers**

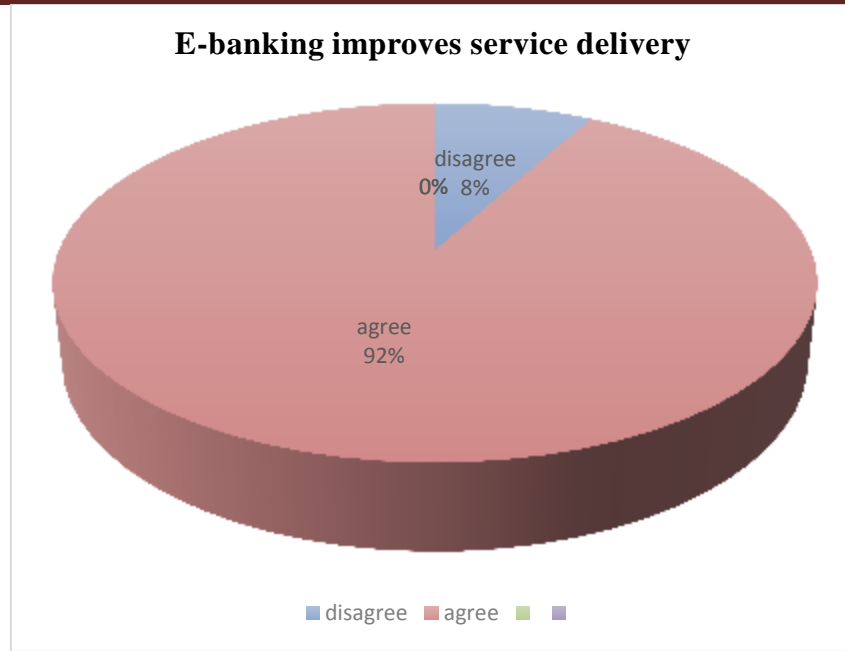


Source: Primary data 2015 n = 63

Fig 4.1 above shows that 63% of the customers indicated that convenience is the main reason behind their use of mobile and internet banking. Safety and low transaction costs were the second most opted reason for the use of e-banking by customers with about 15% of the respondents each. Easiness as well as tracking banking transactions got the least support from customers with 8% of the respondents. These findings are consistent with the research by Corrocher (2002) who observed that convenience and competition were the major drivers of internet and mobile banking. This is mainly because mobile banking has solved the customer`s problem of having to transact at only specified periods of time when banks are opened.

**4.4 Impact of e-banking on traditional banks service delivery**

**Fig. 1.3: Impact of e-banking on traditional banks' service delivery**



Source: Primary data 2015

n = 47

Fig 4.2.2 shows that the majority of the bank staff members, 92%, confirmed that the introduction of mobile banking has really worked in their favor and improved service delivery. The findings of the study prove that the benefits of e-banking to bank customers far outweigh its problems and customers therefore view e-banking as a welcome development that satisfies them more.

**4.5 Customer satisfaction with internet banking services**

**Fig. 4.4: Customer satisfaction level with e-banking**



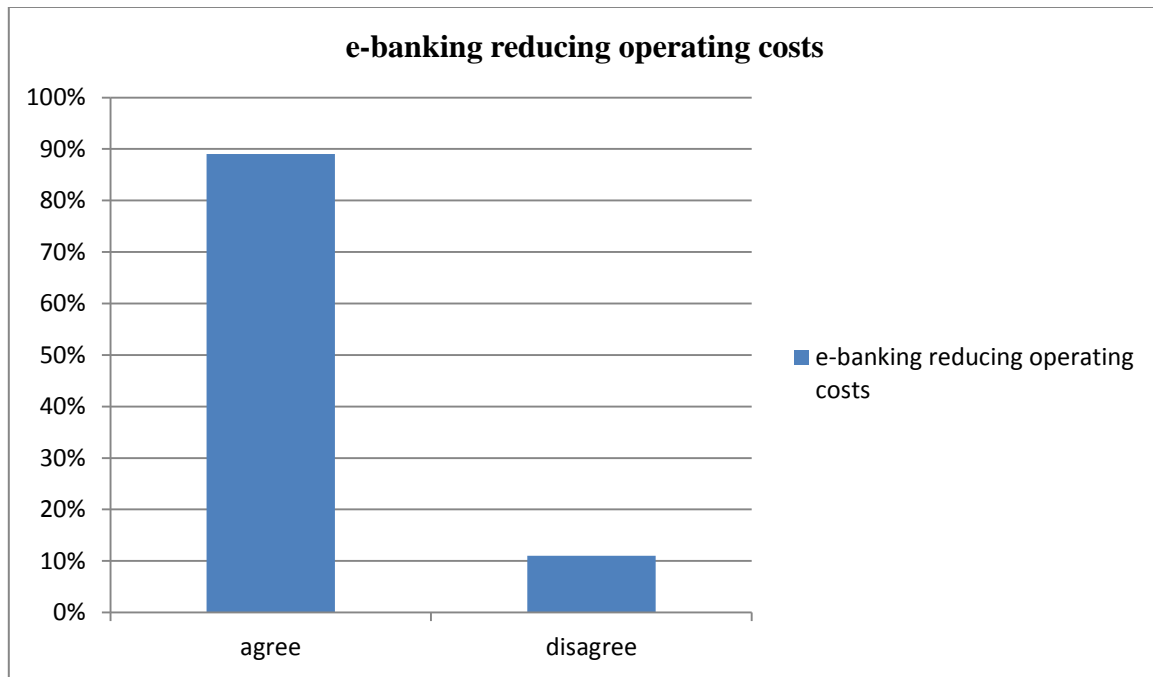
Source: Primary data

n = 63

Fig 4.3 shows the satisfaction levels of e-banking users from their e-banking experience. 53.8% of the respondents were very much satisfied with mobile and internet banking services of by their banks and 17.3% who confirmed they are somewhat satisfied with mobile banking products. 20% of the respondents were not satisfied with the services offered by their respective banks whilst only 8.9% respondents were very unsatisfied.

**4.6 Impact of mobile and internet banking on cost reduction.**

**Fig. 4.5: E-banking on operating costs**



Source: Primary data analysis

n = 47

Fig 4.4 shows that 89% of the respondents are of the view that the introduction of mobile and internet banking has brought about a reduction in the operating costs. Only 11% of the respondents argued that mobile banking has done very little to cut the operating costs of banks. The results concur with the studies of Sumra (2011), on the impact of e-banking on profitability of banks in Pakistan, Okibo and Wario (2014), on effects of e-banking in Kenyan banks, Corrocher (2012), on a study whether e-banking substitutes traditional banking, who all found out that convenience, cost reduction, high income margins and competition were the major drivers of e-banking.

**4.7 Strategies by banks to mitigate the impact of e-banking.**

**Table 4.2: Suggested strategies to minimize impact of e-banking.**

STRATEGY	FREQUENCY
Increase ATMs	15%
Integration with mobile telecoms firms	40%
Build strong customer relationships	20%
Link all bank accounts with mobile phone	25%

Source: primary data

n = 47

Table 4.3 shows the strategies being put in place by commercial banks in order to try and minimize the impact of e-banking on their competitiveness. 15% of the respondents indicated that their respective banks were planning to increase the number of ATMs to remain competitive. 40% of the respondents suggested that their banks were planning to integrate with mobile and telecommunications companies in the country to remain competitive. 20% indicated that their banks were planning to build strong relationships with their customers whilst 25% indicated that banks are planning to link all their customers bank accounts with their mobile phones.

**5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS**

**5.1 Summary of findings**

**5.1.1** The research study mainly looked at the impact of e-banking on the competitiveness of commercial banks in Zimbabwe. The study mainly looked at market share, profitability, cost structure and customer retention and satisfaction as the main attributes of



bank competitiveness. Questionnaires were used to gather data for the research study. A sample size of 200 respondents was used to gather data from both the clients and from the commercial banks and there was a response rate of 55%.

**5.1.2.** The study found out that the majority of the respondents, 53.8%, of the respondents were very much satisfied with e-banking services, 17.3% were somewhat satisfied, while the remainder had displeasure in the e-banking service. Also 63% of the respondents indicated convenience as the main reason for the use of e-banking. 15% indicated safety as well as low rates and bank charges as the main reason, 8% used e-banking service because of its easiness to use.

**5.1.3** The study found out that banks are adopting to e-banking services because e-banking retains customers, reduces banks operational costs, higher revenue generation and market share of banks.

**5.1.4** The findings show that 89% of the banks selected have started to experience improved profitability as a result of e-banking while 11% of them have not yet realized any profits due to e-banking services.

**5.1.5** The study also found that banks are putting in place strategies to minimize the impact of e-banking. 15% of the banks confirmed they are plans to increase the number of ATMs, 40% are planning to integrate with mobile and telecommunications firms, 20% are planning to build a strong customer-bank relationship and 25% have planned to link all bank accounts with mobile phones.

## **5.2 Conclusions**

**5.2.1** Mobile and internet banking improves the competitiveness of banks.

**5.2.2** E-banking is of significant importance to the majority of banks as it helps in customer retention, cost minimisation, higher revenue generation as well as increasing banks market share.

**5.2.3** E-banking gives customers greater convenience.

**5.2.4** The emergence of e-banking has resulted in the generation of higher income levels for banks due to depressed operational costs.

**5.2.6** Banks are putting in place strategies to try and remain competitive in this technologically dynamic environment.

## **5.3 Recommendations**

**5.3.1 Awareness campaigns-** The bank should increase its awareness campaigns to increase the usage rate of mobile and internet banking by its customers since they will be more aware of the service and its benefits.

**5.3.2 Power backups and government support-** In terms of power shortages the banks should provide with reliable backup power like generators, on all branches nationwide. This will allow customers to use internet banking service even though there will be no electricity. Government should also understand banks that are pushing for an e-revolution and give them some tax holidays during the periods they are incurring setup costs of e-banking services.

**5.3.3 Expand service to rural areas-** Banks should seek to expand the mobile and internet facilities to remote areas such as rural areas and growth points where there is a significant number of customers who lack access and knowledge about the services.

## **Areas for future research**

It will also of interest that a study be carried out to measure the exact impact of e-banking on bank profitability and competitiveness using statistical techniques to analyse the data.

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