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Adoption of Retail Internet Banking: A Study of Demographic Factors

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Abstract

This study focuses on the adoption of retail internet banking among consumers in the Klang Valley, Malaysia and the impact of demographics factors on such adoption behavior. This study adopts a quantitative approach using surveys conducted at banks. The results indicate that while the hypotheses pertaining to gender, race, income, educational level and occupation were not supported but age is supported. Therefore, the current research indicates that the age of retail banking consumers affects the adoption of internet banking among Malaysian consumers. The result also suggests that consumers in the age group below 25 years old are the major contributor to the differences. Based on these findings, we conclude that younger consumers are more likely to adopt internet banking. Therefore, the result suggests implications for retail bankers in Malaysia to adopt appropriate strategies to encourage retail internet banking for other age categories of consumers in Klang Valley. By doing so, it enables the banks in Malaysia to save costs of maintaining physical distribution systems through providing bigger scale of Internet retail banking services.

Key words: **Retail Internet Banking, Internet Banking Adopters, Internet Banking Non-adopters, Demographic Factors, Consumers**.

INTRODUCTION

As of September 2009, the Malaysian commercial banking system consists of twenty two banks out of which nine are locally owned (Bank Negara Malaysia 2009). The electronic revolution in Malaysian banking industries started in the 1970's, followed by most widely use technology to-date namely Automated Teller Machines (ATM) introduced in 1981 and tele-banking in the 1990's. In view of globalization and opportunities offered by Internet banking, the Malaysian government provided its first regulatory framework and approval for internet banking to locally owned commercial banks effective 1st June, 2000. Maybank was the very first bank in Malaysia to offer internet banking commencing 15th June 2000 (Suganthi, Balachandher & Balachandran, 2001; Dauda, Asirvatham, & Raman, 2007). A review of the Malaysian banking websites indicated that Alliance Bank, Ambank, CIMB, EON, Hong Leong Bank, Maybank, RHB Bank, Public Bank, Citibank, OCBC, Standard Chartered, United Overseas Bank and HSBC Bank are currently providing retail online banking. All Malaysian domestic banks have internet banking services.

There are numerous studies on adoption of internet banking that which mostly focused on the theory of diffusion of technology by Rogers (1983) and Technology Acceptance Model by Davis (1989). Likewise, upon further review for similar studies in Malaysia, it was found that most research in Malaysia were carried out to measure the impact of technology and consumers perception towards adoption of internet banking with very minimal focus on the impact of demographic factors such as age, gender, education, income and employment on the adoption of internet banking (Dauda et al. 2007). To redress this imbalance, the present study aims to examine the impact of demographic factors on adoption of internet banking in a Malaysian environment.

The scope of the study is focused to samples drawn from Klang Valley area as it is the modernised area of the country. Klang Valley is an area in Malaysia comprising Kuala Lumpur and its suburbs, and adjoining cities and towns in the state of Selangor. An alternative reference to this would be Kuala Lumpur Metropolitan Area or Greater Kuala Lumpur. This study sets out to examine this lack, whether there is any association between demographic factors and adoption of retail internet banking in the Malaysian context. This study specifically intends to measure the level of association between gender, race, age, education, occupation, and income on the adoption of retail internet banking. A review of the literature is presented, followed by the methodology used. Findings are then presented and discussed.

LITERATURE REVIEW

Recent evidence suggests that an internet-based consumer banking strategy may be effective, with reports of more profitable, loyal and committed consumers compared with traditional banking consumers (Fox, 2005). In Malaysia, with the rapid technological advancements and increasing consumer demands for more efficient delivery services, the financial landscape has continued to transition towards the increased significance of Internet Banking as one of banking distribution channels (Bank Negara Malaysia, 2009). Adoption of internet banking is primarily determined by the number of people connected to Internet. Customers will not be able to utilize internet banking without internet connectivity. The relative success of internet banking can be gauged by identifying the current and anticipated users of Internet.