

Internet Banking and Sustainability of Registered Commercial Banks in Kenya.

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Abstract

The rapid growth of Fintech products has resulted in the development of internet banking offered by banks and other telecommunication companies. Internet banking services were initially offered by online financial companies but were later adopted by commercial banks. However, they have posing threats to operational sustainability of banks especially when offered by others online platforms. Commercial banks globally have started showing some signs of distress, and this ought to be examined because of their crucial roles in the economy. This study is aimed at examining the influence of internet banking on long-term sustainability of bank in Kenya. The target population of this study were bank employees from Kenya registered banks. The targeted five seniors' officials in each bank, making a total target population of 210 respondents. A sample of 120 respondents was randomly selected from the target population. Questionnaires were used as the primary method of data collection. The study findings revealed that internet banking had significant influence on banks' sustainability. It was concluded that internet banking had a significant influence on the sustainability of commercial banks in Kenya. Based on the research findings, it was recommended that the bank. . It was recommended that online banking platforms should be made more efficient, according to experts. In addition, banks should encourage individuals to use online banking, which is already popular with corporations. To offset the threat of online lending platforms, commercial banks should make it easy for customers using internet banking to borrow. As a result, banks will have an advantage over other non-banking financial service providers in the future.

Keywords: *Internet banking, Fintech, Sustainability and Commercial banks*

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I. Introduction

Background of the Study

The global financial industry has seen profound transformations over the past few decades as a result of technological developments that have revolutionized the way business is conducted. The development of Financial Technology is largely attributable to technological advancements (Fintech). To a large extent, the banking sector has evolved in response to developments in the financial sector. According to Románova and Kudinska (2016) defines financial innovation as the introduction of novel financial institutions, markets, securities, and technologies that simplify and secure monetary transactions.

Many financial institutions around the world have closed their doors or merged to survive. For instance, in the United States, the 2008-2009 global financial crisis caused the failure of numerous financial institutions. Some of the banks that went under during the crisis include: Douglass National Bank, Bear Stearns, Hume Bank, Lehman Brothers, ANB Financial Institutions, and First Integrity Bank (Mayes & Wood, 2013). With numerous banks failing and merging, this caused concern in the international financial system (Vazquez & Federico, 2015). Financial innovation, as explained by Beck et al. (2016), led to the growth of sophisticated financial products like credit default swaps (CDSs) and collateralized debt obligations (CDOs), whose widespread use aided credit expansion and contributed to the country's financial crisis.

The incapacity of banks in the United States to continue their operations is not something new; in fact, it stretches all the way back to 1819, which was the year that the first financial crisis occurred. Later on, this was followed by further panics that took place in the years 1837, 1873, and 1907, as well as the savings and loan crisis that took place in the late 1980s and early 1990s (Manuel, 2019). Three hundred twenty seven (327) banks were unable to continue their business operations and hence failed during the global financial crisis that occurred from 2008 to 2010. These failed banks either merged with other banks or went out of business entirely (Manuel, 2019).

During the financial crisis that engulfed the American economy in 2008 and 2009, CDSs and CDOs were relatively new types of financial securities. Product innovation, in the form of the development of novel financial products, contributed to the worldwide financial meltdown. Furthermore, the deteriorating bank's performance is attributable to the rising acceptance of online banking in the various parts of the world, which in turn may be offering severe competition to commercial banks. Traditional banking institutions in the country are being challenged by a new type of financial innovation: digital banking (Anand & Mantrala, 2019).

It was clear that the banking sector has been struggling, and on the other hand the Fintech industry has been expanding rapidly across Africa and the rest of the world. For that reason, the study was set out to examine how the new internet banking which is one of the new innovation in the Fintech industry was likely to influence the sustainability of bank in Kenya.

Statement of the Problem

Technological advancements have impacted various sectors of the economy globally in the recent past. Technological advancements have improved operational efficiency in various sectors and have led to the development of new products. Taking the banking sector as a case study, technology has led to the development of Fintech products, one of them being internet banking. This has acted as a disruptive innovation that has been embraced by online companies and has also trickled down to commercial banks as a way of countering competition and creating a competitive advantage. On the other hand, commercial banks in Kenya have been showing signs of financial distress in the form of mergers, acquisitions, increased NPLs and laying off employees (KBA, 2019). It is evident that Kenyan banks are having financial difficulties and their performance is declining. As a result, there was a need to examine the sustainability of commercial banks in the current era characterized by increased use of the internet to carry out financial transactions.

Research Objective

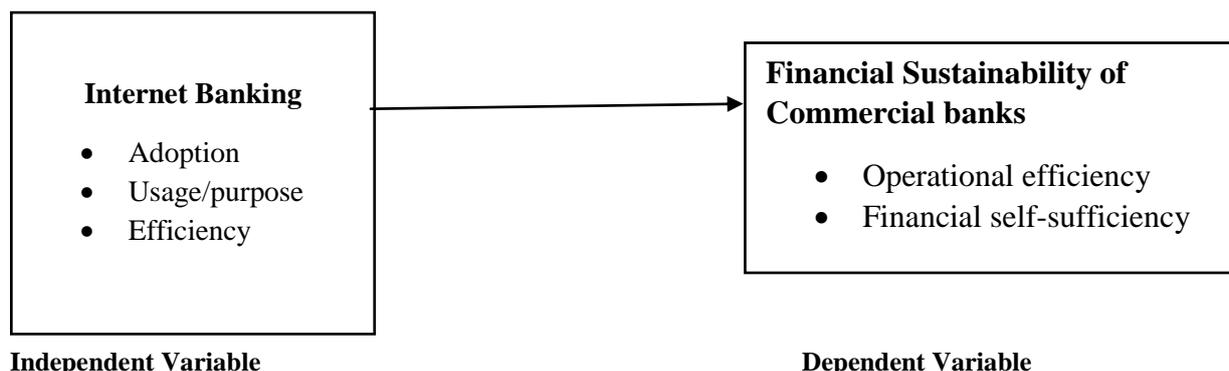
The study's core objective was to examine the influence of internet banking and sustainability of commercial banks in Kenya.

II. Literature Review

Theoretical Frame Work

The current study was grounded on the Technology Acceptance Model (TAM). Fred Davis, drawing inspiration from the theory of reasoned action, created the TAM hypothesis in 1987. According to the model the Perceived utility (PU) and perceived ease-of-use (PEOU) are two of the most important criteria that influence a user's decision to embrace a new technology when provided with multiple options, as proposed by the TAM model (Davis, 1987). The PU describes a user's level of confidence that employing a certain system will improve their efficiency and effectiveness on the job (Davis, 1987). The extent to which a new technology is adopted depends on the user's expectations on the technology's ability to meet such expectations. Davis's second important consideration in this model is the user's estimation of how little effort will be required on their behalf to use the system in question (known as the "perceived ease-of-use," or "PEOU").. However, TAM has been challenged for being an outmoded paradigm despite its global recognition and applicability by scholars in different parts of the world especially technology diffusion area of study. One more thing that has been said to be wrong with the TAM model is the idea that it can explain people's actions. Users' reported buying, rejecting, and accepting of technology suggests that TAM was not sufficient to describe these actions (Hai & Alam Kazmi, 2015).The convenience of internet lending services for borrowers and lenders alike has been widely recognized. This model was also utilized to support the study variables; internet banking and its indicators

Conceptual Framework



Empirical Review

In 2017, Mateka, Gogo, and Omagwa investigated how using the internet for banking affected the bottom lines of publicly traded commercial banks in Kenya. The major purpose of this research was to analyze the impact of Internet banking on the bottom lines of Kenya's publicly traded commercial banks. The study showed that internet banking had a positive impact on banks' revenue, operational costs, loans and customer deposits (Mateka, Gogo & Omagwa, 2017). Online credit platforms that are not commercial banks are a real threat to this field. In this analysis, online banking was considered an internal resource used by financial institutions to compete with registered commercial banks.

Oyewole *et al.*, (2013) examined the effect of E-banking and the performance commercial of banks in Nigeria. The reason for the study was the way in which technology advancement had changed how banks operated in the nation over many years. The study's findings showed that during a two-year period, e-banking started to improve bank performance. The study also revealed that the first year after adoption saw unfavorable effects. It was suggested that e-banking investment decisions should be sensible in order to justify the cost and income consequences on bank performance. Even if the scholar's past work was highly insightful, the following are the areas in which the current study deviates from the scholar's previous work. In order to assess the long-term survival of commercial banks in light of the rise of internet banking, this study looked at both primary and secondary data.

Korankye (2014) researched how e-banking affected the quality of service provided to customers and the profitability of banks in Ghana. The study discovered that, despite a variety of obstacles, E-banking and, by extension, information and communication technology, have favourable influenced customer service and bank profitability. It was suggested, among other things, that automatic teller machines (ATMs) should be watched over continuously to ensure that any malfunction is resolved as soon as possible to ensure client retention. Banks should organize regular training programs on ICT to keep their personnel up-to-date on industry trends and programs in order to maintain a competitive edge, and the government should create an effective regulatory framework to protect customers and safeguard financial transactions.

Research Gaps

The current study aimed at bridging the geographical and time gaps identified in the reviewed articles. Besides, the article aimed at looking the sustainability of banks in the current era of technological innovation by examining the influence of internet banking and sustainability of commercial banks.

III. Research Methodology

Research Design

In order to achieve the study's purpose, the research employed descriptive and correlation designs. This descriptive design was used to explain the phenomenon of internet banking and how it was likely to affect the long-term sustainability of banks. The correlation design was used to establish the relationship between the study variables.

Target Population and Sampling

The target population of this study were bank employees working in Kenyan registered banks. The researcher target 5 employees in a total of 42 banks. This made a total target population of 210 respondents. A sample of 120 respondents was selected through simple random sample technique.

Data Collection Methods and Procedure

The primary study tool that was utilized for the purpose of data collecting was a questionnaire. This questionnaire contained both open and closed ended questions. The research instruments were disseminated through the drop and pick method, and when that wasn't an option, they were emailed out.

Reliability and Validity

The study instrument's reliability was examined by a Cronbach Alpha test. After a successful pilot research, the final questionnaires were fine-tuned before being distributed to the whole sample.

IV. Data Analysis, Findings And Discussion

Reliability Test Result and Response Rate

The level of internal consistency, as measured by Cronbach's alpha, 0.812, is statistically significant. In other words, the assessed constructs were reliable enough to move on to deeper levels of examination. A 68.30% response rate was found in the results. A response rate of 50% is adequate for analysis and reporting, as stated by Taber (2018); thus, this was a good and representative response rate.

Descriptive Findings

The goal of the research to determine the influence of internet banking on the long-term viability of Kenya's commercial banks. An examination of internet uptake, usage, purpose, services desired by customers and efficiency was a major focus of the research.

Descriptive Analysis from Bank employees Perspective

As a result of further investigation, internet banking was measured by objective, based on how frequently respondents utilized internet banking, their purpose, and their cost-effectiveness compared to traditional banks. The findings of a descriptive study of internet banking, as seen from the point of view of bank personnel, are presented in Table 4.1.

Table 4.1: Descriptive analysis of Internet Banking: Bank Employees Perspective

Response Statemets	N	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Standard Deviation
Internet banking is mainly used for corporate services.	82		7	5	41	28	4.35	2.36
	%		8.5%	6.1%	50%	34.1%		
Internet banking is less popular among many banks customers	82	2	13	15	41	11	3.56	0.995
	%	2.4%	15.9%	18.3%	50%	13.4%		
Internet banking has improved financial and operational efficiecy for banks	82	-	13	6	43	20	3.85	0.970
	%	-	15.9%	7.3%	52.4%	24.4%		
Comercial banks online platforms are less used for borrowing purposes	82	-	9	6	39	28	4.05	0.928
	%	-	11%	7.3%	47.6%	34.1%		
Internet banking platforms are less cheap compared to traditional banks	82	-	-	7	46	29	4.27	0.610
	%	-	-	8.5%	56.1%	35.4%		

The majority of respondents 69 (84.1 percent) agreed with the statement, "Internet banking is primarily utilized for corporate services," while (7) 8.5 percent disagreed and (5) 6.1 percent were indecisive. This resulted in a mean score of 4.35 and a standard deviation of 2.36, as shown in table 4.1. Because of this, banks were expected to take advantage of the fact that individuals used the internet to do their banking less frequently than businesses did in order to retain their customers and stave off competition from other providers of online banking services.

The poll also queried service providers to see how much they knew about the availability of internet banking to end consumers. Sixty-three percent of respondents agreed with the assertion that internet banking was less popular among many bank customers, while fifteen percent disagreed and eighteen percent were unsure. From the data presented in table 4.33, we can infer that the statement had a mean of 3.56 and a standard deviation of 0.995. To get a round number, we rounded the mean up to the nearest 4.

Research shows that 67.7 percent of respondents believe commercial banks' online platforms are less used for borrowing reasons, compared to 9.1 percent who disagree and 7.3 percent who are undecided about the assertion. In the preceding table 4.1, the mean and standard deviation for this statement are both shown to be 4.05 and 0.928, respectively. As a result, customers had to turn to non-bank sources of credit to meet their monetary responsibilities, despite the fact that banks had introduced innovative online borrowing options.

Table 4.1 shows that the average rating for the statement "Internet banking platforms are less expensive than brick-and-mortar banks" was 4.27, with a standard deviation of 0.610. When rounded up to the closest whole number, the average response to the statement was 4, which shows that the respondents agreed with the statement. This meant that users can save money by using low-cost internet banking. Since bank charges are a source of income for these financial organizations, customers would experience lower costs, which would result in lower income for banks.

4.8.3 Regression Findings on Internet Banking Services

The purpose involved analyzing the impact of online banking on the long-term Kenya's commercial banks sustainability. This study's findings, which are summarized in table 4.2 (a) below, gathered by testing the third research hypothesis.

H_o: Internet banking has no significant influence on sustainability of commercial banks in Kenya.

Table 4.2 (a): Model Summary for Internet Banking and Financial sustainability

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.737 ^a	.544	.538	.42764

a. Predictors: (Constant), Internet Banking

Regression analysis conducted in Kenya found a significant positive correlation (R=0.737) between the use of online banking and the long-term sustainability of commercial banks. According to the coefficient of determination (R²), online banking accounted for 54.4% of commercial banks' long-term viability, while other variables accounted for the remaining 45.6%. Table 4.2(a) displays the obtained outcomes.

In order to evaluate the model's significance as a whole, a linear regression analysis and an analysis of variance were carried out. The findings on the model are presented in Table 4.2 (b).

Table 4.2(b): ANOVA Summary for Internet Banking and Financial Sustainability

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	17.431	1	17.431	95.317	.000 ^b
1	Residual	14.630	80	.183		
	Total	32.061	81			

a. Dependent Variable: Financial Sustainability
b. Predictors: (Constant), Internet Banking

The results of the F-test, displayed in table 4.54, show that the model is statistically significant at the 5% level of confidence ($F(1, 81) = 95.317, p=0.000$) (b). This meant that the model had a high probability of being correct. The following table 4.3 (c) displays the outcomes of a P-value analysis that was performed to test the null hypothesis.

Table 4.3 (c): Internet Banking Co-efficient Results

Model	Coefficients ^a				t	Sig.
	Unstandardized Coefficients		Standardized Coefficients			
	B	Std. Error	Beta			
1	(Constant)	.231	.145		1.588	.116
	Internet Banking	.943	.097	.737	9.763	.000

a. Dependent Variable: Financial Sustainability

The beta- coefficient was 0.943 and had a standard errors of 0.097 and constant value of 2.31. This implied that an alteration of a unit of internet banking would cause a rise in financial sustainability by 0.943. The following is the linear regression model of agency banking and financial sustainability of commercial banks.

$$Y = 0.231 + 0.943 X_3$$

The significance level was 0.05, and the P-value was 0.000, hence the hypothesis was supported. According to 4.2 (c) above, this meant that the variable was significant enough to model, and the null hypothesis was rejected, leading to the conclusion that online banking had a substantial influence on the long-term sustainability of Kenya's financial institutions.

V. Discussion of Findings

According to the data, most people were quite satisfied with the internet banking services provided by their bank. Banks' internet banking offerings included electronic funds transfer (EFT), real-time gross settlement (RGTS), and a self-service site. Internet banking was found to have a significant relationship ($R=0.737$) with the long-term viability of Kenya's commercial banks. Using the coefficient of determination, we find that commercial banks may thank internet banking for 54.4% of their continued success (R^2). The model predicted that the introduction of online banking will have a major impact on the future success of Kenya's commercial banks, and the p value for this hypothesis was 0.000.

According to Mateka, Gogo, and Omagwa (2017), online banking had a favourable impact on bank earnings, costs of operation, loans, and deposits by clients. The study findings were consistent with this conclusion. It was discovered by Korankye (2014) that the internet had a favourable impact on bank profitability and customer service. The findings of this study are also in agreement with those of Kombe and Wafula (2015), Malhotra and Singh (2009), Barasa, Obura and Anyira (2017) and Mateka, Gogo and Omagwa (2016).

VI. Conclusion And Recommendation

Based on the research findings it was concluded that internet banking had a significant influence on sustainability of commercial banks in Kenya. It was recommended that online banking platforms should be made more efficient, according to experts. In addition, banks should encourage individuals to use online banking, which is already popular with corporations. To offset the threat of online lending platforms, commercial banks should make it easy for customers using internet banking to borrow. As a result, banks will have an advantage over other nonbanking financial service providers in the future.

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