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IMPACT OF INTERNET BANKING ON PROFITABILITY OF FIDELITY BANK PLC

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ABSTRACT

The under estimation of what growth internet banking can add to the profitability of commercial banks necessitates this study as most Nigerian banks still depend on paper transaction charges like cheque book, counter cheque, in branch statement request etc. Therefore, the study examined the impact of internet banking on profitability of commercial banks in Nigeria (A case study of Fidelity Bank PLC). The study used simple percentages and frequencies as a technique to run and analyze the data collected from the bank. The total population for the study is 200 staff of fidelity bank in Lagos was selected randomly. Descriptive Survey research design was adopted for this study. A total of 133 respondents made up human resource managers, accountants, customer care officers and marketers were used for the study. The findings of the study revealed that the Fidelity Bank Plc, Lagos has a better competitive advantage over other banks because of the nature of E-banking that is being put in place by them. Also, the study revealed that the Fidelity Bank Plc, Lagos has a better competitive advantage over other banks because of the nature of E-banking that is being put in place by them. This will enable the bank to stand the chance of gaining greater percentage of the market share in the industry. Thus, the study recommends more ATM facilities which should be placed at strategic location for easy access. Marketing and education of internet banking service and products should be intensified to attract more customers which enhances profitability. The bank should conduct more research to find new internet banking product to attract and to retain her potential customers.

Keywords: Internet Banking, Profitability, Nigerian Economy.

1.0 Introduction

The significance of the banking sector in any economy cannot be overemphasized. Banks play important role in developing the financial capacity of the economy of a country. The growth currently experienced as a result of globalization has blurred the geographical boundary of a country resulting in stiff competition in local markets. Many commercial banks in Nigeria are taking measures to become more efficient in their overall operation and infrastructure. To enhance the banking performance and to fascinate future customers, the conventional banking systems are changing to a more digital banking system. The banking sector is convinced that by investing in new technology, banks can become more responsive to customer demands thereby creating an exciting experience for the customers. The use of computers has helped in automating the banking process and has reduced backlogs and delay in bank operations. In recent times the internet has become a fast-spreading service that allows customers to use their computers, or any other internet enabled devices to access their accounts or specific information and possibly carry out transactions from a remote location be it their home or the workplace. Smart cards, credit cards, debit cards, ATM cards, have all helped to ease human life. Today life without these seems to be hard (Enebulu, 2015).

The high rate of internet penetration in recent times has redefined the playground in retail banking services. The retail banks are now offering their services majorly through their internet branches. However, the effect of internet banking on the profitability of banks has remained an issue yet to be studied. Internet banking simply is a system of banking that allows for transactions electronically which involves the use of information communication technology to drive banking business for future and immediate goals.

Internet banking is the provision of banking services to customers using internet technology (Daniel, 2019), defined internet banking to include the provision of small and retail value services and banking products via electronic channels, as well as a large value electronic payment and some other wholesale banking services which are all delivered electronically. Alwabel and Alsmadi (2014) have another view. They expressed that internet banking varies among researchers simply because they believe internet banking refers to several types of services through which bank customers can request information or carry out banking services. However, the revolution in the banking industry in Nigeria became obvious with the coming of technological devices to help in the delivery of quality services to customers. Introduction of these devices has driven competition in the banking industry which has in turn reduced customers' waiting time for transactions (Kent, 2017). This innovation is powered by computers and other networking devices. The networking began with the LAN (Local Area Network) MAN (Metropolitan Area Network) and later the WAN (Wide Area Network) in Nigeria.

In general, the automation of banking services has made transactions and data processing so easy to access. This has helped for quick management decision making. Another level of benefit to this is that it ushered in what is referred to today as internet banking which has helped banks to speed up their wholesale and retail banking services (Abubakar, 2014). The banking industry by adopting this new technology believes that it will help banks to improve on their customer service which will endear them to their customers. The prospects of reducing the cost of operations and increasing operating revenue is seen as a motivator in the investment in internet banking by banks according to Simpson (2017).Most of the studies on online banking has only focused on the customer adoption of internet banking and no of enrolled customers with few recent studies focused on the adoption of internet banking on bank's profitability. However, this study is undertaken to fill the gap and explain the impact of internet banking on banks profitability with Fidelity bank as a case study.

2.0 Literature Review

Internet Banking offers several types of services through which customers of the bank can request for, get information and can also carry out most of their banking transactions through their smart devices and computers (Suriya, Mahalakshmi & Karthik, 2012). Chang and Hamid (2010) defined Internet Banking as the process through which customers complete banking transactions electronically without visiting the banks physically or without visiting brick and mortar bank. Alsajja and Dennis (2010) defined Internet Banking as the process of providing banking services through technology without using physical resources of banks as well as staff. According to Gerrard and Cunningham (2013) Internet Banking is defined as the usage of Internet and Telecommunication networks to deliver banking services to customers. Kim et al (2016) defined Internet Banking as the process whereby the customer is able to access, control and use his or her account over the Internet. They described Internet Banking as the act of conducting financial intermediation on the internet. According to Arunachalam and Sivasubramanian (2017), Internet Banking is where a customer can access his or her bank account via the Internet using personal computer (PC) or mobile phone and web-browser. The growing acceptance of the digital lifestyle as stated in Salehi and Alipour (2010),has brought a significant transformation in customers' expectations from their financial service providers. Internet banking is the use of internet in order to provide services like on line transfer, payment of bills and any other on line banking activity. Internet banking can be grouped into four major classes.

a) **Telephone banking:** this is a form of internet banking which is used by customers in order to perform or carry out retail transactions by calling phone communication units which are linked to an automated system of bank. Some activities that can be carried out are change of pin and transfer of funds.
b) **Internet banking:** this is also another form of banking which allows customers to make use of the bank's website in order to make transfers, pay bills, and view their bank statement without having to visit the banking hall.
c) **Mobile banking:** this is a form of internet banking which involves the use of cell or mobile phones in order to settle some transactions. Some of the examples of this transactions includes change of pin, transfer of little amount of funds, phones recharge.
d) **Electronic card:** this is a form of internet banking is a physical plastic card that identifies the holder of the card. It is used for financial transactions online which include point-of-sale (POS) and Automated Teller Machine (ATM) which are used to authorize payments to the sellers. The various types of these cards include credit and debit cards which have to be replenished.

Online banking uses Information Technology infrastructures to facilitate banking activities. Most of the banking activities that involves online banking are online statement and balance request, fund transfer, payment of bills, online investments etc. Not only does internet banking provide convenience to customers, but banks also benefit as limited no of employees are needed and less budget for physical branches which in turn reduces the overall cost of operations and a better profit declaration as a result. During my research, it was discovered that quite a no of authors have used different performance metrics to identify the impact of internet banking on bank's performances, with ROE (return on equity) and ROA (return on asset) being the most common.

Concept of Profitability

In economic view-point, profit means net increase in wealth as a result of cash flow plus changes in the value of the firm's assets. Profit is the most important indicator of a firm's success and performance. In the free market economy, profit is a guide of allocating limited resources efficiently (Pandey, 2012). He also considers profit as the difference between revenue and expenses over a period of time (one year).

A company should earn profit to survive and to grow over a long period of time. It is considered as the rationale output of a company, and it will jeopardize its future if it fails to make sufficient profit. Although profit is quite essential, Drucker (2008) advocates and the researchers supported him that it will be wrong to assume a every action initiated by management of an organization should be aim at maximizing profit, irrespective of the social consequences. It is unfortunate the "profit" is been looked upon as an abusive term some firms always want to maximize profit at the cost of employees, customers and the society except in some cases where it is not frequent. In fact, sufficient profit most be made largely to sustain the operations of the organization and to be able to obtained funds from investors for expansion and growth and to contribute towards the social overheard as well as for the welfare of the society.

Profit Making in the Banking Industry

Profit is one of the pointers of a business success. In it use, investment profitability serves as a common denominator of a business operational effectiveness. The bank is not a charity organization but also exists for the purpose of profit making. It is also worthy of note that banks make profit like every other business firm who have goods and services for sale in the literal marketplace. Banks offer their own services in a unique way which is what we will be considering.

Lending is the principal activity from which income and profit are derived. In other words, no bank can survive without lending and no significant profit can be made. To be candid, lending constitutes about 55% - 60% of its assets in terms of loans and 65% - 70% of its income. The whole process of lending leads to the creation of credit (profit) for the bank since every amount lend out by bank is expected back with profit. The process of credit creation stem from the fact that banks need only a small percentage of cash deposit. If banks kept 100% of the cash against deposits, modern banks do not keep 100% cash reserve, in fact Nigerian banks are obliged to keep N25b, as capitalization fee, and 10, 15 or 20 percent of their deposit in cash and they are to lend or invest the remaining amount which is called excess reserves. A bank allowed to lend only equal the amount excess reserves.

The deposit multiplier depends upon the require reserve ratio which is the for credit creation. The process thus involves lending and creation of new demand deposits from each bank excess reserves which is a little less than that of the proceeding bank and so new deposit is created for the whole banking system. Exchange market, banks also have the right to engaged in investment in other areas such as buying of shares, property (real estate) investment and government stock and bonds etc.

Empirical Review

This review is concerned mainly with relevant practical applications of the theoretical underpinnings. Bello and Dogarawa (2005) examined and accessed the impact of internet banking services on customers' satisfaction in Nigeria banking industry. The result of their study shows that many bank customers in Nigeria are fully aware of the positive development in information technology and communication which led to new delivery channel for commercial banks product and services in Nigeria. Banks traditionally have always sort medium through which they will serve their clients more cost-effectively as well as augment the benefit to their clientèle. Their core concern has been to serve clients more conveniently and in the process increase profit and competitiveness thus banking in Nigeria embracing the influx of e-banking. Improvement in Information and Communication Technology in Sub-Saharan Africa are rapidly changing the way business is conducted. Agboola (2001) also stated the impact of computer automation on banking services in Lagos using six banks and concluded that internet bank has tremendously improved customer services. Egland (1998) was the first important study, which estimated the number of US banks offering electronic banking and analysed the structure and performance characteristic of these banks. It found no evidence of major difference in the performance of the group of banks offering electronic banking activities compared to those that do not offer such services in terms of profitability, efficiency or credit quality. However transactional electronic banks differed from other banks primarily by size.

According to Centeno (2004), the internet adoption factors are divided into two categories:

i). Factors relating to the infrastructure and accessing technology

ii). Factors that are related to retail banking factors.

The prior factors include skills on the part of consumers in using internet and other related technologies, attitudes towards technologies, internet penetration rate privacy and security concerns. Later involves factors like banking culture, internet culture, trust in banking institutions and internet banking push. However, lack of PC and internet penetrations serves as barriers for development of e-banking. Also, in their study conducted in Turkish retail banking sector Polatoglu and Ekin (2001) concluded that internet decreases operational costs and it amplifies customer's satisfaction retention.

Furst, Lang and Nolle (2002) examined the influence of internet banking on profitability amongst United States national banks. The study considered large banks in urban areas and their counterparts in the localities. Findings revealed that bank profitability has a strong correlation with internet banking in all US national banks. However, the study emphasized that in large banks in the urban areas, bank profitability has no relationship with internet banking because those banks merely use internet banking for competition purposes and not for profit making.

3.0 Methodology

The researcher used descriptive research survey design in building up this project work the choice of this research design was considered appropriate because of its advantages of identifying attributes of a large population from a group of individuals. The design was suitable for the study as the study sought to the impact of internet banking on profitability of commercial banks in Nigeria (A case study of Fidelity Bank PLC). Data were collected from two main sources namely: (i) Primary source and (ii) Secondary source. The total population for the study is 200 staff of fidelity bank in Lagos was selected randomly. Descriptive Survey research design was adopted for this study. A total of 133 respondents made up human resource managers, accountants, customer care officers and marketers were used for the study. The major research instrument used is the questionnaires. This was appropriately moderated. The secretaries were administered with the questionnaires to complete, with or without disclosing their identities. The questionnaire was designed to obtain sufficient and relevant information from the respondents. The primary data contained information extracted from the questionnaires in which the respondents were required to give specific answer to a question by ticking in front of an appropriate answer and administered the same on staff of the two organizations: The questionnaires contained structured questions which were divided into sections A and B.

Method of data analysis

The data collected was not an end in itself but it served as a means to an end. The end being the use of the required data to understand the various situations it is with a view to making valuable recommendations and contributions. To this end, the data collected has to be analysis for any meaningful interpretation to come out with some results. It is for this reason that the following methods were adopted in the research project for the analysis of the data collected. For a comprehensive analysis of data collected, emphasis was laid on the use of absolute numbers of frequencies of responses and percentages. Answers to the research questions were provided through the comparison of the percentage of workers response to each statement in the questionnaire related to any specified question being considered.

Frequency in this study refers to the arrangement of responses in order of magnitude or occurrence while percentage refers to the arrangements of the responses in order of their proportion. The simple percentage method is believed to be straight forward easy to interpret and understand method.

The researcher therefore chooses the simple percentage as the method to use.
The formula for percentage is shown as.
% = f/N x 100/1
Where f = frequency of respondents response
N = Total Number of response of the sample
100 = Consistency in the percentage of respondents for each item

4.0 The data presented here was based on the responses gathered from the impact of internet banking on the profitability of Fidelity Bank Plc.

Table 1

The positions held by respondents

Response		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	HRMS	37	27.8	27.8	27.8
	Customer care officers	50	37.6	37.6	65.4
	Marketers	23	17.3	17.3	82.7
	Junior staff	23	17.3	17.3	100.0
	Total	133	100.0	100.0	

The above tables shown that 37 respondents which represents27.8% of the respondents are HRMS 50 respondents which represents 37.6 % are customer care officers 23 respondents which represents 17.3% of the respondents are marketers, while 23 respondents which represent 17.3% of the respondents are junior staff.

Test of Hypotheses

To achieve the objective, the following alternative hypotheses were formulated for the study:

Ho1: There is significant relationship between automated teller machine and commercial bank profitability

Ho2: There is significant relationship between point on sales and commercial bank profitability

Table I

There is significant relationship automated teller machine and commercial bank profitability.

Response	Observed N	Expected N	Residual
Agreed	40	33.3	6.8
strongly agreed	50	33.3	16.8
Disagreed	26	33.3	-7.3
strongly disagreed	17	33.3	-16.3
Total	133		

Test Statistics

	There is significant relationship between internet banking and commercial bank profitability.
Chi-Square	19.331[a]
Df	3
Asymp. Sig.	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 33.3.

Decision rule:

The researcher therefore rejects the null hypothesis that there is no significant relationship between internet banking and commercial bank profitability. as the calculated value of 19.331 is greater than the critical value of 7.82 Therefore the alternate hypothesis is accepted that there is significant relationship between automated teller machines and commercial bank profitability.

Table II

There is significant relationship between point on sale channels and commercial bank profitability

Response	Observed N	Expected N	Residual
Yes	73	44.3	28.7
No	33	44.3	-11.3
Undecided	27	44.3	-17.3
Total	133		

Test Statistics

	There is significant relationship between point on sale channels and commercial bank profitability
Chi-Square	28.211[a]
Df	2
Asymp. Sig.	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 44.3.

Decision rule:

The researcher therefore rejects the null hypothesis that state there is no significant relationship between point on sale channels and commercial bank profitability as the calculated value of 28.211 is greater than the critical value of 5.99

Therefore, the alternate hypothesis is accepted that state there is significant relationship between point on sale channels and commercial bank profitability

5.0 Result and Discussion of Findings

The findings from the study revealed that the Fidelity Bank Plc, Lagos has a better competitive advantage over other banks because of the nature of E-banking that is being put in place by them. This enabled the bank to stand the chance of gaining greater percentage of the market share in the industry. The finding has also clearly revealed that the Fidelity Bank Plc, Lagos customers are quite comfortable with the bank service delivery by reducing waiting time of customers waiting to be served. This is due to the fact that E-banking system is in best condition to satisfy the customer at ease and a cheaper rate which has eventually led to increase in the number of customers who are willing to patronize the bank, ultimately increasing the profit of the bank.

In line with the findings of the study, it was inferred that the E-banking system has generally increased the efficiency of the Fidelity Bank Plc, Lagos banking operation. This findings show that the bank in attempt to upgrade and update its E-banking system automatically improve the general efficiency of its banking operation.

Conclusion/Recommendations

This study concludes that internet banking has a positive effect on commercial bank profitability. This conclusion was evident from the results gotten from the two hypotheses above that showed the effect of ATM, POS on profitability of a commercial bank. The trend of profitability of internet banking shows there is rise in the amount of investment been made by most commercial banks. Also, with the increase in sensitization been done by most commercial banks in Nigeria, it is a matter of time for every bank customer to embrace the new era of online banking. It should also be noted that security of transactions is still a concern for many users and potential users of such banking services. Hence, banks need to research and upgrade its security around the internet banking infrastructure. Legislation for stiffer penalties for fraudsters can reduce fraud-related risks in banks. In other to gain customers trust to embrace online banking, banks need to visibly demonstrate concern for security, and ability to swiftly respond to fraud related complaints with realistic solutions to reduce or eliminate costs to customers in case of unsuccessful transactions or if processed inaccurately. The Internet channel must be well integrated into other channels so that customers can easily interact with people who are trained to handle complaints efficiently, and banks must adopt strong customer interface. Banks are also recommended to make good investment in internet banking services to keep pace with the ever-changing business world and the above-mentioned issues must be addressed before the implementation of such banking system. In addition to the above, it is also recommended that

i. More ATM facilities which should be placed at strategic location for easy access.

ii. Marketing and education of internet banking service and products should be intensified to attract more customers which enhance profitability.
iii. The bank should conduct more research to find new internet banking product to attract and to retain her potential customers.
iv. The management should also get highly qualified programmer and technicians to over the maintenance of the E-banking system.

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