

Increasing Trend of E-Commerce in Banking Sector

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ABSTRACT

E-commerce has contributed highly to the process of placing the economic world in the position it is today. Not only has the concept made it possible for businesses to grow their competitive advantage, but has also helped improve customer care and overall quality of service delivery by businesses. Among the institutions for which e-commerce has provided an immense advantage is the banking sector. However, adoption of e-commerce in banking has not been as robust as would be anticipated. Some factors have been attributed to the slow application of e-commerce in the fiscal industry. Even so, the concept of e-commerce has had some impact on the sector. This paper holds an account of findings of a research project aimed at finding out the contribution of e-commerce on the banking sector in the Kingdom of Saudi Arabia. The results presented that e-commerce has made it possible for consumers to access their services from banks easily, affordable and faster than in the conventional ways of banking. E-commerce has also contributed to the adoption of new innovations in banking which provide consumers with increased quality of service. The study also found out that besides these, e-commerce has also contributed to an increased imbalance in the maintenance of proper customer service and overall profits for banks in Saudi Arabia. In conclusion, the study was able to achieve its objectives by effectively gathering relevant answers to the research questions as was intended by the research.

1. Introduction

Electronic commerce and business, also commonly known as e-commerce is a term used to define any business or financial transaction for commercial purposes that entails the exchange of information across an internet forum (Taherdoost, Sahibuddin & Jalaliyoon, 2011). E-commerce covers in it a wide range of business types, ranging from retail services to overall wholesaler and bulk. They could be selling material goods, conducting auctions or general service delivery along the internet channel (Schneider, 2011). E-commerce is the most recent emergence of internet use that is steadily taking root in the commercial and corporate business worlds. E-commerce reduces the possibility or the challenges of time and distance barriers in business; making it possible for consumers to exchange money for the goods and services they require across borders and time zones. In the last five years, electronic commerce has been on an upward trend; one which has been predicted to keep increasing at such steady rates for a more extended period of time to come.

In the years that it has been in common practice, e-commerce has been categorized into B2B and B2C. B2B, which refers to Business to Consumer, refers to the mode of electronic commerce where the business is conducted between business and business as opposed to business to the consumer. B2C defines the mode of e-commerce where the transactions are between the business and the consumer. Conduction of these business transactions over the internet has made it easy to conduct business easily by reducing the costs and increasing the competitive advantage for companies. The traditional methods do not have as numerous advantages as e-commerce as it is cheaper, faster and widely convenient.

E-commerce has been made possible by the existence of Electronic Data Interchange (EDI). In the application of EDI, customers and their suppliers are expected to create a data link between them in which electronic commerce provides them with cost-effective methods of companies to set up these ad-hoc links (Schneider, 2011; Chang, Dillon & Chan, 2001). To set up e-commerce forums, it is imperative that the business possess and access to shopping cart software, online payments provisions, and steady internet supply among other determinant factors. Such interests that must be put in place before the institution of e-commerce make it a challenging course to undertake in some instances. Despite the numerous advantages that e-commerce has it has been received with minimal enthusiasm.

In the Kingdom of Saudi Arabia, e-commerce is slowly taking root, so that it is possible for people to access their services from supermarkets, banks and other shops online. However, adoption of e-commerce in the banking sector remains interestingly underexplored despite the fast speed with which transactions are conducted in these forums. Some of these impacts of e-commerce on the banking sector have been investigated on, and plausible conclusions are drawn. However, it is of interest to understand the reception of e-commerce in the Kingdom of Saudi Arabia and in the banking sector to be specific. According to Cracknell (2012), the application of e-commerce in the banking sector would present numerous advantages. Consumers would be able to access their accounts and their finances easily and make their transactions from the pleasures of their office rooms, homes or even in transit. E-commerce sees to it that mobile applications are also instituted so that people are also able to transact from their mobile phones and tablets. The possibilities of cybercrime, however, make it difficult for mobile banking and

other conceptualisations of electronic commerce to be adopted.

2. Background to the Study

The merger of computer science and telecommunications engineering led to the birth of Information and Communications Technology (ICT), a birth which led to dramatic change in the manner which computers were being viewed and utilized. According to Schneider (2011), the development of ICT influenced in an excellent manner the process through which people went through in order to grow global presence and provide a top stand for their businesses. E-commerce provided a path for the conventional business forums to combine with the internet, hence introducing new business models.

The concept of e-commerce and its application has been the most far-fetched influence of the internet in the business world. The internet today has been used to reach a wider client base, while also allowing businesses to straighten the mode in which they operate their business. A number of developing countries have become more inclined to the idea of electronic commerce than any other states as regards to the corporate perspective and its application. E-commerce was developed and has been transitioning through the timelines as its application becomes more acceptable and widely robust in the Kingdom of Saudi Arabia.

Competitiveness of an organization or business is made easier by e-commerce through the creation of innovative communications and innovative technologies. Not only does e-commerce enhance the processes of these online business transactions but also allows for business owners and managers to change these processes of conducting business (Chaffey, 2009). To actualise a successful e-business, it is crucial that possess a comprehensive level of knowledge on the different activities and processes that make a business what it is: the products or services the business offers. The target customers, the place in which the business operates and the logistics that are involved in the development of the products or services, distribution and overall business management (Chaffey, 2009; Ingenico, 2012). Transitional from the conventional mode of business into application e-commerce also requires that organizations plan for and incorporate the change that comes with it. It is imperative that the developers of these e-commerce forums create a position that allows the organization to favourably transition into the e-commerce forums (Chaffey, 2009).

ICT makes it easier and possible for such electronic systems such as mobile banking, credit and debit cards and electronic transfer of funds among other possibilities in the realm of commercial dictates. This electronic payment (E-payment) is the process by which goods and services acquired are paid for through an electronic funds transfer method. In this critical process of online commercial transactions, banks play a major role. According to findings of numerous researches, banks act as intermediaries between these forums so as to allow for reduction of trust issues, high transaction costs in payments and perceived risks during online cash transfers (Ozkan, 2010). Electronic payment or e-commerce adoption, in general, is not being adopted at the same rate across nations.

Developed countries, for instance, have also not reached the expected threshold for the use of electronic business and banking. The differences in the intensity of adoption have been attributed to the risks associated with the online commercial transaction. Economies of scale have been exhibited in the markets for electronic payments in the Kingdom of Saudi Arabia in more high stakes than it has been recorded in other states in the United Arab Emirates. These payment regulations, as is presented by Bizina (2012) are driven by four factors which include access to electronic services, the safety of these mediums, their efficiency, and innovation.

According to Bizina (2012), the popularity of e-commerce in banking sectors is facilitated by the wide use of internet-based shopping and online banking. Researchers posit that the modern innovations being made regarding e-commerce are driven by two major motives. One is to reduce the amount of risk associated with e-commerce in the banking sector so that more people believe in the security of the process and thus adapt it. Secondly, it is presented that innovators in e-commerce with reference to the banking sector wish to get a market share in the electronic business industry while consequentially replacing traditional methods such as MoneyGram and Western Union (Boyd & Jacob, 2007).

While EFT was the earliest mode of implementation of electronic commerce, it is important to note that other modes such as the ATM, the credit and debit cards are some of the important facets of e-commerce in financial institutions (Boyd & Jacob, 2007). However, EFT was the pioneer mode of e-commerce in the banking industry, popularly being referred to as 'direct deposit.' In this instance, money was able to move from one bank to the other without being physically exchanged by people. An instance in which this mode of e-commerce functioned was the transfer of money from employers into their employees' accounts in salary, wage among other stipends. Today, EFT has evolved and in its definition the other modes of online financial transactions including the cards, internet banking, electronic fund transfers at the point of sale and the ATMs among other methods in which money transfer was conducted through an electronic terminus. Consumers, and most commonly retailers throughout the market accept smart cards and credit cards as the most common mode of electronic payment.

An Automatic Teller Machine is used by financial institution clients to access their money in easy terms and convenience by the production of a Personal Identification Number (PIN) and the management by an expiration date, which allows the person to withdraw or deposit their monies into their bank accounts. In the modern world, electronic data interchange (EDI) is another form in which electronic commerce in banking is conducted so that the users are able to develop messages agreed on among them from one machine to another without the physical communication between the parties. The messages are interchanged through telecommunications, making it possible for trading notes such as invoices, credit notes, and electronic cheques to be interchanged without human intervention (Schneider, 2011).

E-commerce also entails mobile payments. Mobile payments conventionally referred to as electronic cash, make it possible for a consumer to make payments directly through their mobile phones through the text message. The mobile devices (mobile phones, tablets or personal digital assistants) are used as the medium of financial exchange to transfer the money to the required account. Banks in the world are starting to widely adopt these electronic means of business in attempts to grow trust in their consumers while also targeting to identify and establish a niche in the market (Avvari, Guru & Harris, 2011).

E-commerce was first realized in 1960 when EDI made is possible for users, most companies at the time, to conduct transactions between themselves electronically. Smith (2011) posits that the concept of electronic commerce was propelled by the institution of the initial online shop set up by Michael Aldrich. In 1981, Thomson Holidays instituted the Business to Business online platform in the United Kingdom, setting off the revolutionary world of e-commerce in Britain. Minitel was the first online commercial arena to be set up in France and was the brainchild of the France-based telecommunications Company, France Telecom. In 1984, two years after Minitel was started, Gateshead started up the first ever B2C online platform. From then, application of technology and the internet in business took off. It became important for organizations and businesses to take up the challenge and apply the needed strategies into creating the business derived.

When the World Wide Web started up an online book-selling shop that could process payments from credit cards, the internet, and its profitability for businesses took off. Following the e-book shop, Amazon and PayPal followed suit, and in 1998, the legendary dot.com era took the business world by storm. Apple set up iTunes and Facebook, and Microsoft made a business agreement so that Facebook could run advertisements on Microsoft on their site. In 2013, online retailing had hit the \$46.5 billion mark in the United States and was starting to get more accepted in other states, including the developing worlds.

E-Commerce in the Kingdom of Saudi Arabia

Electronic commerce involves making business transactions across an online platform, in which value is exchanged between the two parties involved. The parties could be the Business-to-Consumers or Businesses-to-Businesses. There are several reasons why businesses adopt the use of technology for their transactions other than widening the customer base. First, businesses hope to increase their competitive advantage by being the only ones in their competitive arenas to be on the platform. In the cases where competitors are also e-commerce users, businesses strive to make their sites more robust and quicker to respond to consumers. Secondly, businesses also adopt e-commerce for the sole reason of expanding the shopping experience for their consumers so as to promote consumer loyalty and satisfaction (AlGhamdi, 2017). According to Al-Otaibi & AlZahrani, (2017,) e-commerce also allows companies to grow and impact positively on their relationships with consumers by providing everything they need for them on one platform.

Online shopping and other dictates of e-commerce had not been popularly adopted in the Kingdom of Saudi Arabia as they have been in the last half-decade; This is because of such incidents as insecure online methods of the transaction, extremities in shipping expenses and robust physical inspection. While these challenges exist, consumers in KSA continue to appreciate the advantage that is brought forward by the convenience of shopping online. The adoption and overall application of e-commerce is slow in the Kingdom of Saudi Arabia. The slow speed with which this adoption is being approached has been attributed to the absence of critical infrastructure with which to guide the electronic commerce practice. Such attributions have been met with controversy, owing to the knowledge that Saudi Arabia is among the states with the widest market base for personal computers worldwide. The slow adoption of electronic commerce in the Kingdom has also been attributed to standard cultural rules and questions of privacy.

Statistical rates for e-commerce transactions in Saudi Arabia posit that out of all the online transactions conducted, 80% cash-on-delivery payments are made, with use of credit card standing at 15%. Out of this, only 5% of the Saudi Arabian online shoppers' population use PayPal following their online business transactions. 30% of the mobile phone shoppers in the Kingdom of Saudi Arabia used smartphones as of 2016. Despite the increase in the number of people conducting their business online from 2013 to 2016, the easiness of adoption of the concept is still in its minimal in this Kingdom. With such statistics related to the adoption of the concept in the general context of e-commerce, adoption of the same and the impact it has on the banking industry in the state is also of interest, due to the fact that people protect their money strongly. The current study seeks to understand how this background of e-commerce in the kingdom impacts on its reception and the width of its application in banks in Saudi Arabia.

3. Discussion

The development of e-commerce has led to a widespread belief that emerging economies will potentially improve their financial viability and economic performance by embracing it (Turban et al., 2017). E-commerce is a relatively new technology, and a number of firms and business organizations are increasingly incorporating it into their respective strategies as a way to create a competitive advantage or to increase customer base. The Saudi Arabian banking sector has managed to be more efficient, effective, and pertinent, as many banks have adopted e-commerce strategy in their operations (Baabdullah et al., 2018). Efficiency has been achieved through discarding manual processes and operations, replacing these operations with electronic systems thereby resulting in costs reductions through reducing turnaround services, queues in banking halls, and paperwork.

The banking sector has become somewhat relevant in which it continues to adapt to the constantly changing technological developments in the business environment to ensure it meets the needs of the current consumers (Baabdullah et al., 2018). Relevance is a critical element in the Saudi banking sector, as banks would be of no value to their clientele in case they do not remain relevant and meet their

customers' needs. Saudi banks are more effective in the sense that they can attain or move toward to accomplish their aims and objectives. Numerous banks across the country have been registering significant profits, which have been reported to result from e-commerce strategy adoption.

Despite the many benefits the Kingdom's banks have been receiving as a result of E-commerce, there have been certain challenges it has faced, including installation costs and exposure to cybercrimes and threats (Makki& Chang, 2014). More importantly, the Kingdom today is a representation of a distinct and convergent blend of technological prowess and social conservatism, an immense change from a secluded, desert land that it was some few decades back (Makki& Chang, 2014). Nevertheless, achieving this has often necessitated novel approaches that attempt to integrate technology into the established societal structure to circumvent potential interest confrontations. The most significant of such endeavours has arguably been the growth of the Internet worldwide and its incorporation into the Kingdom's banking sector. Efforts are ongoing as Saudi Arabia continues to open up to access to the internet access, exploiting internet in commerce opportunities, in government, and in education. The interest of the government to pursue e-commerce to promote regional and national businesses, through legal framework structuring for online transactions, has been increasing. Given the influence Saudi Arabia has in the region, a move as this one would influence the banking sector across the Middle Eastern region. However, the effect that e-commerce has on Saudi banking sector has not been intensively investigated (AlBalawi&Hidayat-ur-Rehman, 2016). It is with regards to the above background that the research purposes to explore the impact of e-commerce in the Saudi banking sector.

Due to the exponential rate at which e-commerce is growing, it is evident that is increasingly becoming a factor to consider in the effort to grow business in the world economy. Financial institutions and banks to be specific have slowly come to the realization that e-commerce poses more advantage to the industry, despite the challenges and risks associated with it that introduce insecurity. Banks have effectively used e-commerce in the bank to bank (B2B) transactions and the mobile banking forums for their clients (B2C). However, e-payment methods of the past such as Western Union and MoneyGram have had challenges with their implementation, introducing a gap in the way in which consumers perceive electronic commerce as a general practice in financial management. Some of the shortcomings associated with traditional e-commerce platforms are such issues as high costs of transaction, distrust, insecurity or compromised security, and higher disadvantage scope compared to the advantages they had. These factors have been provided with a basis for banks to step in and fill these gaps (Ozkan, 2010).

Evidently, the electronic transaction is not a new concept as long as the banking sector is involved. Financial transaction services have guided by the electronic factors for many years, even though in 'closed groups' and strong, complex EDI dictates. The study's objective is to investigate the impact of these electronic commerce dictates on the banking industry in

the Kingdom of Saudi Arabia. The researcher wishes to the changes that have occurred in the banking sector environment since the wide practice of electronic banking. In the same context, the researcher wishes to understand the specific processes that have guided the research as relates to banks in Saudi Arabia, their perception of e-commerce and their adoption of the same. The study will invest its resources in the horizontal development of this relationship in terms of how e-commerce may have diversified services provided by these financial institutions.

In the current e-business environment, it is impossible to identify who is generally providing modified versions of already existing e-commerce services. Owing to the great function that banks have in the financial service sector, it is impossible to cover the impact of the e-commerce concepts on all banks as they exist. Not only do banks provide commercial services, but also contribute to the overall economic structure of a state. Banks are certified as distributors of money, guarantors, and facilitators of all financial transactions that are conducted in the economies. For banks, these structural functions and tasks levied upon them by the economy departments of the states are the major docket and providers of their business function (profits). Paying attention to these dictates this study will utilize the knowledge that banks play a major role in the state economy.

4. Conclusions

The study was driven by the application of five study questions, which also translated into the specific objectives of the study. Under these research questions and the investigation developed through this study, the researcher made the following conclusions, which may be used as the derivatives of the current study on the impact of e-commerce on the banking sector in Saudi Arabia. First, from the findings of this study, the researcher concludes that banks in Saudi Arabia do acknowledge and appreciate the impact of e-commerce on the sector; this is as evidenced by the vast extent to which the case banks have adopted e-commerce into their service delivery systems. While most case banks have already selected samples of the most conventional types of B2C e-commerce, they are not very popular with their customers, owing to the level of negative publicity that has been around the security of online bank transactions in Saudi Arabia. The researcher also concluded that due to the wavy support of the consumers on the adoption of e-commerce in the banking sector, the imbalance between customer satisfaction and profit for banks as a negative impact of e-commerce comes in.

The researcher also concluded that e-commerce has great advantages mainly for the banks directly. It was the conclusion of this study; thus, that the adoption of e-commerce by banks in Saudi Arabia is majorly motivated by the need to widen the interests of the banks. Such include the increased competitive advantage that e-commerce presents to the banking sector, the ability to reach a more extensive geographical width of consumers and increased possibility of consumer loyalty. In the opinion of the researcher, e-commerce makes it possible for banks to explore other external advantages, such as the

preservation of the environment through the reduction of paperwork.

Third, owing to the gaps that have been identified by this research as relates to the negative impact of e-commerce on the banking sector, the researcher concludes that the despite the broad advantages associated with e-commerce, the spread of this advantages should be put into consideration. For instance, the banks ought to place into perspective that some

of their clients do not have access to internet services or a steady internet connection. As such, flexibility in the mode of e-commerce applicable to specific clients should be considered. The research also uncovered that some of the challenges associated with the adoption of e-commerce are solvable or reduced to manageable extents. The researcher, therefore, concludes that e-commerce, even though not widely adopted in the Kingdom of Saudi Arabia as would be expected, has a significant impact on the sector.

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