

EFFECT OF E-BANKING ON ASSETS QUALITY: AN EMPIRICAL ANALYSIS

Muhammad Mahroof Malik¹, Muhammad Asif Khan², Muhammad Waseem Shehzad³, and Mhammad Arfaq Waseem²

¹Department of Business Administration,
University of Management Sciences & IT,
Kotli, Azad Kashmir, Pakistan

²Department of Commerce,
University of Management Sciences & IT,
Kotli, Azad Kashmir, Pakistan

³Department of Economics,
University of Management Sciences & IT,
Kotli, Azad Kashmir, Pakistan

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ABSTRACT: This research investigates the effect e-banking poses on upgrading the assets quality held by bank. How does e-banking influence the Assets Quality of commercial banks in Pakistan? To measure the impact, secondary data sources are used for 10 years; five years before the E-banking and five years after adopting the E-banking and then compare the performance, T test (Paired Comparison) is used to check the validity and reliability. Researcher assumes the other factors that affect the performance of bank are constant or limitations that are not evaluated in his paper. However, the E-banking played significant role in the advancing the Assets Quality of the performance of banks and development of the banking system. It can be implemented in the practice of the banking and also academic side. The further research can be conducted in this area, developing the case of each bank and Effect on Return on investment, sensitivity to market risk.

KEYWORDS: E-Banking, Banking, Assets quality, Performance of Bank.

1 INTRODUCTION

The advancement in the technology and the worldwide use of this effect the both products and services created, the advance the methods through these products and services are provided. The Electronic banking is new burn concept in the advancement of technology that is blend of communication and computer technology. It is estimated that the banks which are shifted from the manual banking to electronic banking improve the profitability, reduces the cost through improving the assets quality and make the customers more satisfied and sophisticated. The research addresses the financial and operational aspect of banks through examining their financial statements issued by five leading commercial banks (HBL, UBL, ABL, MCB, and NBP) in Pakistan.

“Electronic banking has come out as a higher efficiency attaining from the resources, controlled operations and decrease the cost instead of the manual banking, less labor consuming means with automated processes thus leading to higher quality of assets [1]. Therefore, new researches have been produced little confirmation concerning the potential innovations and changes. Nevertheless, recent experimental studies indicated that Internet banking is having an autonomous effect on banking quality of assets; it can change the use of internet turn into more extensive [2]. The research examines the Assets Quality of banks through the analysis of financial statements of five leading commercial banks (HBL, UBL, ABL, MCB, and NBP) in Pakistan from 2002 to 2011.

2 REVIEW OF LITERATURE

Electronic banking defines providing the products and services through online and creates market space for the customers. The definitions of this concept are varying from researcher to researcher because it is the wide concept that includes the huge range of services that can be provided through the electronic mean. Its start from the gathering of information to the delivery channel and the cash management sources to the customers. Now the days all sort of electronic media can provide the banking services like mobile banking, television banking [3].

There are many versions and packages of technology that can use in the bank and foster the performance of the banking sector. All sort of the activities are performed through electronically that are almost performed by the manual banking [4]. The usage of new technology in the banking make the banking more customer oriented [5]. Financial development of emerging countries benefited by the e-banking upraising breadth and quality, lowering cost, widening access to financial services and increase in the efficiency of the operations. It can decrease the labor and labor cost through the services delivered by the electronic means. Computer decreased the human errors as compared to the manual working, it improve the processing in quick manner and save and fast services can be delivered which save the time, cost and efforts. Due to accuracy and timeliness of services, the customers are more satisfied to operation of the bank and increase the profit and decrease the profit [6].

The adoption of the e-banking is the most important driving forces that decrease the expenditure and increase in the revenue of the bank. US banks are the more profitable operation and established structure of the banks can improve the performance due to the e-banking [7]. A research also conducted in the retail banking sector, it proves that the online banking was more profitable and operational efficiency increase, financial aspects of the organization was improve. It minimizes the operating cost and financial aspect of the organization would be increased due to advancing in assets quality [8].

Internet got importance in banking and plays a vital role in development in early stage of banking and after this it also helped in globalization as well as worldwide banking. Through the internet every customer and account holder can access easily get information about the service and as well as the transaction without any delay in time and the formalities [9]. Due to internet banker scan the documents and send to the other unit in real time processing without the wastage of time [10].

E-banking, adoption issues, opportunities and threats in developing nations, role in the customer satisfaction, threats and benefits, impact on the performance of banks, parameter for measuring the efficiency, gauges and requirements for expansion in general [11].

A number of studies have been conceded all over the years to identify function of E-banking in the growth of industry especially banking. The researcher is worked on the other dimension that how the electronic banking advancing the assets quality of bank.

3 RESEARCH METHODOLOGY

The study analyses how the dependent variable is affected by the independent variable checking impact of E-banking on Assets quality of the local commercial banks. The data consists of a panel of top five Pakistani banks for the period 2006-2011. In Pakistan the concept of the E-banking can arise in 2000 but actually it implemented in 2007. Compared after the 2007 and before 2007 performance using the tools of central tendency and dispersion and T test use as tool to check the validity and reliability of the data. $t=d/sd/(n)^{1/2}$, level of significance is 0.05 is used to accept the results.

All the local Pakistani Banks that are registered under the State Bank of Pakistan is the targeted population of the study. Top five commercial banks are the sample of study; random sampling techniques should be used. Assessment is in the period of 2002-2011, the timeframe that is observed the growth of e-banking services in Pakistan. The time frame is divided into two sections one is the before the adoption and other is after the adoption of the new technology in the banking sector of the Pakistan.

Secondary sources were used to collect the data for the study, journals, websites data was used for the literature review and construction of the theoretical framework. The annual reports of the five leading commercial banks (NBP, UBL, ABL, MCB and HBL) from the period of (2002-2011) were used to evaluate the performance.

3.1 HYPOTHESIS

Based on literature analysis the study developed and tested the following hypotheses.

H1: "E-banking services are cause to improve the assets quality of bank"

H2: "E-banking services are not cause to improve the assets quality of bank"

3.2 INDEPENDENT VARIABLE

E-banking Services: Activities include in the e-banking like depositing, checking balance, information about the products and services, utility bills payment, electronic settlement and plastic money and are globally growing electronic banking activities exploring the use of wireless networks and venturing into some new areas of electronic. It can lessen the distances among the countries and make them glob. Expend the operation and expend the size of market that creates opportunities for the enhancement in the size and structure.

3.3 DEPENDENT VARIABLE

Asset Quality: "It determines the sturdiness of financial organization against loss of value in the assets. The failing assets value, problems source of banking, directly pour into other areas, as losses are eventually written-off against capital, that decrease in the value of assets and decrease earning capability of the institutions" (ABA, 1995).

Formula: Assets Quality / Earning Assets to Total Assets= Net Advances + Net Investment + Money at Call / Total Assets

4 RESULTS, DISCUSSIONS AND FINDINGS

The independent variable seeing that literature including characteristics revealed independently or representation in terms of Sample [12]. Asset Quality is variable because it indicates the difference with the usage of manual and electronic means. Upgrading in Assets Quality is increase the worth of organization that is the cause of more satisfied customers and retains the customers of a financial institution. In this way improve the quality of the products and services of the bank.

Table 1.1 Assets Quality

Name of Bank	Mean before 2007	Mean After 2007	S.D	CV
NBP	0.848	0.87	0.01	0.01
HBL	0.806	0.82	0.01	0.01
UBL	0.803	0.84	0.01	0.01
MCB	0.77	0.83	0.02	0.02
ABL	0.833	0.86	0.01	0.01

Sources: Estimated by researchers

To check the reliability and validity of the data and the significance of the research t-test is used that result is as follow.

Table: 1.2 t-test H1

t-test	Value	Critical region
	2.402223	2.652

Sources: Estimated by researchers

Hence $|t| < t_{0.025, (4)}$, value does not fall in critical region. The H1 is accepted, its means the E-banking is cause to improve the assets quality of bank.

Researcher explored that the online banking make the management of the financial institutions sound. The use of the technology decrease the expense of bank to generate the income increased the earning per employee and decreased the expense per employee. Financial institutions are evaluated in terms of asset quality. Shift toward the electronic banking is making the utilization of assets more effective and efficient. The assets are generate more profit, decrease, the expenses and reduction in the processes and procedure that can delay the normal practices of the banking, it is advancing the procedures

that can help to make the proficient working in the banking sector. These all practices and procedures are improved, due to upgrading the assets quality that is become possible of e-banking.

5 CONCLUSION AND RECOMMENDATIONS

The research was conducted in ordered to study that E-banking has resulted in upgrading the Assets quality of bank. In the first section that comprise on literature review defining the concept of E-banking and its implication in the banking sector. The secondary data is used of 10 years pre and post of the adoption of the e-banking, simple ratios calculated and t-test used to analyse the data. The result obtained that e-banking plays a significant role in the development and up gradation of assets quality in the banking Industry.

The research is an attempt of investigation of the e-banking impact in the improvement of the assets quality of the bank. So, the banks that have the e-banking facilities are performing better than the banks that not used the electronic banking. They easily increase their net advances, investment and money at call and the total assets that have in their owner ship. The study recommends that the banking industry working in the Pakistan adopt the new way of electronic means to improve the performance.

The future research can be conducted to measure the impact of e-technology on the sensitivity of market risk, capital adequacy and profitability of the operations of banking sector. Also studies can be conducted on the technological dimensions of e-banking in the practitioners and customers prospective.

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