



An Assessment of Digital Banking and Its Impact on Profitability of Banks With Reference To Standard Bank of Malawi.

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Project Report

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ABSTRACT

Digitization is the process of converting data into digital format. Digitalization means the adoption of technology. Digitization is not an option for the banking industry. Rather, it is inevitable because every industry is being digitized, and banking sector is no exception. With the help of technology, banks are able to reach out to more customers and provide better services to them.

The study assessed digital banking and its impact on profitability of banks with reference to standard bank of Malawi. How the bank finds itself before a new fact imposed by technology revolution that has changed their work mechanisms from traditional means to electronic means. A survey of 50 customers of standard bank of Malawi was researched to see how it has been impacted by digital banking.

Thus, this study was undertaken to understand the digital banking impact in Standard Bank of Malawi. Both primary and secondary data provided valuable information from which findings were drawn. Among other things, the study indicated that digital banking in Malawi has assisted in alleviating poverty by creating employment to some people and improving productivity through alternative means of paying bills without necessarily travelling far or handling cash insecurely apart from empowering the poor and unbanked with a secure, reliable and efficient digital banking transfer service.

The conclusion however from the findings is that poor network availability is a deterrent to accessing digital banking as it also affects quality of the service thereby impacting negatively on customer satisfaction.

I. INTRODUCTION

Research title

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Introduction

The gyration of information technology has influenced almost every aspect of life, among them is the banking sector. Introduction of digital banking has revolutionized and redefined the ways banks were operating (Sumra, Manzoor, Sumra, & Abbas, 2011). As technology is now considered as the main contribution for the organizations' success. So the banks, be it domestic or foreign are investing more on providing the customers with the new technologies through digital banking (Sumra et al, 2011). The availability of digital banking is expected to affect the mixture of financial services produced by banks, the manner in which banks deliver these services and the resulting financial performances of these banks. Whether or not this extreme view proves correct and whether banks take advantage of these new technologies will certainly depend on their assessment of the profitability of such a delivery system for their services. Industry analysis outlining the potential impact of digital banking on revenue growth, risk profile and cost savings of the banks have also generated notable interest and speculation about the impact of the Internet on the banking industry (Berger, 2013). In fact, digital banking eliminates physical and geographical boundaries and limitations of banking services. Banking over the digital has attracted the customers and increasing attention since the late 1990's from banks, brokerage houses and insurance companies, as well as the business press, regulators,



and law makers all over the world. This attention has been due, in part, to the rapid and significant growth in electronic commerce (e-commerce) and to the notion that electronic banking and payments are likely to advance more or less in tandem with digital banking (Harihara&Pavithra, 2012). The main objective of this study is to assess the impact of digital banking on Profitability of Standard bank in Malawi.

Malawi is one of the countries that have been affected by the innovative components of the digital. Various business sectors have embraced the efficient applications of the digital. However, questions that remain to be answered are whether such adoption of the digital applications in banking business has resulted in improved performance and profits or digital banking is rather just another catchword in the business arena.

This growth in the use of the digital has affected the way banking business is done in Malawi, as it has created a new market segment for some industries. Digital banking is an innovative distribution channel that offers less waiting time and a higher spatial convenience than traditional branch banking with significantly lower cost structure than traditional delivery channels (Mols, 2019). Digital banking reduces not only operational cost to the bank but also leads to higher levels of customer satisfaction and retention.

As a result digital banking looks very attractive to banks and consumers, who now have higher acceptance to new technology. (Polatoglu and Ekin, 2001, Mols, 2000, Sathye, 1999, Wisner and Corney, 2001)

However Malawi still remains predominantly cash-based society (Ngalande, 2003) and it's only a smaller portion of the market that is well conversant with the new technologies. While advancement in technology would bring numerous opportunities to the country, such offerings do not come without business and technical implications (Saidi, 2009)

II. LITERATURE REVIEW

Introduction

This chapter discusses the literature review of the study. The areas covered in this study are theoretical reviews of digital banking and bank financial performance by analyzing financial intermediation theory, innovation diffusion theory and modern economics theory. The chapter also looks at the empirical evidences that that have been performed by other researchers and any gaps in their findings to come up with a conceptual framework.

Empirical literature review

Performance of commercial banks are critical to the economy, however, a number of factors are seen to affect financial performance of commercial banks. For This study performance of Standard bank of Malawi was analyzed on the basis of the findings of other studies and gaps identified by the studies that need to be improved with regard to digital banking product and services, costs and performance of standard banking.

Access to Digital banking technology services and performance of commercial banks

Sub-Saharan Africa has some of the lowest levels of infrastructure investment in the world. Merely 29 percent of roads are paved; barely a quarter of the population has access to electricity, and there are fewer than three landlines available per 100 people (International Telecommunication Union, ITU, 2009; World Bank, 2009 a&b). Yet access to and use of mobile telephony in sub-Saharan Africa has increased dramatically over the past decade.

There are ten times as many mobile phones as landlines in sub-Saharan Africa and 60 percent of the population has mobile phone coverage (ITU, 2009). Mobile phone subscriptions increased by 49% annually between 2002 and 2007, as compared with 17 percent per year in Europe (ITU, 2008).

According to Aker and Mbithi (2010), there is a strong correlation between mobile phone coverage, the type of services offered, the price of such service, and firm performance. In markets with limited competition, profit-maximizing firms to offer more limited services at higher prices. Rayhan, Sohel, Islam, and Mahjabin (2012) in their study on digital banking in Bangladesh concluded that, mobile phone banking offers the potential to extend low cost virtual bank accounts to a large number of currently un-banked individuals.

A positive aspect of digital banking technology innovation is that mobile networks can reach remote areas at low cost both to the consumer and the bank therefore enhancing the adoption of digital banking technologies. Several studies have been conducted on the effects of digital banking and the performance of commercial banks.

In his study Tchouassi (2012) attempts to find out if mobile phones technology extends banking services to the unbanked persons using empirical Lessons from Selected SubSaharan Africa Countries. This study attempts to discuss the use of mobile phones to extend banking services to the poor, vulnerable and unbanked population in the society. The study notes that low- income households in Sub-Saharan Africa (SSA) countries lacked access to bank accounts and also faced high



costs for performing basic financial transactions. The study thus concludes that mobile phones presented a huge opportunity for the penetration and provision of financial Services to the unbanked population. In addition to technological and economic innovation, policy and regulatory innovation was needed to make these services a reality (Ngumi, 2014). As telecommunication markets mature, mobile phones in Africa are evolving from simple communication tools into service delivery platforms (Jensen 2007; Aker, 2008; Aker, 2010; Klonner and Nolen, 2008). This has shifted the development paradigm surrounding mobile phones from one that simply reduce communication and coordination costs to one that could transform lives through innovative applications and services (Ngumi, 2013).

Donner and Tellez (2008) conducted a study on e-banking and economic development where they attempted to link adoption, impact, and use of digital banking. The study found out that digital banking systems could be an important innovation to the developing world by offering ways to lower the costs of moving money from place to place and offering a way to integrate more users into formal financial systems.

The study further suggests that the true measure of that importance of digital banking would require multiple studies using multiple methodologies and theoretical thoughts before answering the questions about adoption and impact. Tiwari, Buse and Herstatt (2006) did a study on digital banking as business strategy: impact of mobile technologies on customer behavior and its implications for banks. The study attempts to establish the opportunities available for banks to generate revenues by value addition, innovative digital banking services while retaining and even extending their base of technologically savvy customer's.

Wambari (2009) did a case study of digital banking in developing countries using a case of Malawi. This study attempts to find out the importance of digital banking in the daily running of businesses in Malawi and the challenges in using e-banking as a business tool.

The study explains that the adoption and use of mobile phones is as a result of a social process which emanates from the social practices of individuals and businesses which leads to some economic benefits.

Turnaround time of digital banking technology services and performance of commercial banks

One of the main concerns of Digital banking services how fast it will take a customer to undertake a transaction through their mobile phone. This concern has been the experience of many customers in Malawi who were linked into the digital banking platforms to access the banking services at Standard Bank. According to Ritho and Jagongo (2015), Before digital banking was used, and a customer had a lengthy transaction process. The customer would carry her cash to the bank location, make a queue for long at the branch, cash was counted and recorded by the teller in the customer's account. This process made the customers to spend a lot of time in the process besides the great security risk of walking around with cash. A digital banking service enables the customers to deposit money directly from their mobile device to the respective bank accounts. The studies on the turnaround time of digital banking services have largely focused on the benefits to the customers, however, this study focus on the benefits to the standard bank a digital banking service providers. The studies again, do not identify the effect of the turnaround time on the financial performance of commercial banks hence leaving a gap (Ochumo, 2007)

Digital banking technology costs and performance of Standard bank of Malawi

According to Koivu (2002) uptake of mobile phone in Malawi has been unprecedented. Digital banking in Malawi affects the behavior, decision making and performance of organization and entire economy. The trend of continuously relying on mobile devices to perform monetary transaction is gaining momentum in the world.

Digital banking is one invention which has gradually concentrated itself in pervasive ways of cutting across several sectors of the economy and industry. Kigen (2010) conducted a study on the impact of digital banking on transaction costs of microfinance institutions. In the study, he established that digital banking had reduced transaction costs significantly even though they were not sensed by the banks because by then there was a small digital banking customer base. Kigen (2010) attempted to assess the effects of digital banking on transactional costs of microfinance institutions.

Kingolo (2011) considered the relationship between electronic banking and financial performance of Standard bank of Malawi focusing on the microfinance Institutions in Lilongwe.



Kingolo (2011) study focused on the wider electronic banking whereas this study will only concentrate on digital banking. Munaye (2009) studied the application of digital banking as a strategic response by equity bank Malawi limited to the challenge in the external environment. In his study, Munaye (2009) studied the concept of digital banking as a strategic response however, its effects on financial performance were not considered.

Zimmerman (2010) established that digital banking in developing world was an object of skepticism among financial insiders while proponents argued that cell phones could revolutionize personal finance in poorer country, regulators warned of money laundering and most bankers worried that low customer balances wouldn't be worth transaction costs.

From the above arguments, this study assumes that digital banking supports the delivery of digital banking services in an organization and the economy.

III. MAIN FINDINGS

Firstly, the study concluded that access to digital banking services influenced the financial performance of Standard Bank of Malawi. There was evidence that the introduction of digital banking technology in the banks improved their key deposits to a great extent while withdrawals levels and value of loan also increased to a great extent. Furthermore, the study found that digital banking technology had improved banks liquidity position and therefore considering these aspects, it can be hypothesized that there is a relationship between access to digital banking and financial performance of Standard Bank of Malawi.

Secondly, the study concluded that digital banking technology cost affected the financial performance of Standard Bank of Malawi moderately. It was noted that digital banking technology reduced operating cost to a great extent while staff cost, general administrative expense and user training cost reduced to moderate extent and at the same time bank's income only increased at a moderate extent and as well as the overall profit of the bank as a result of use of digital banking technology.

Finally, the study concluded that turnaround time of the digital banking systems affected the financial performance. This study established that, the bank experienced system failures while providing the digital banking service which lowered the speed of performing a transaction and in some cases resulted into losses which

eventually if not recovered, affect the financial performance of the bank.

In overall, the study found out that digital banking technology had a positive impact on the profits of the bank to a little extent even though the overall profit of the bank may not reflect much from the digital banking technology services since the study established that this technology contributes below 10% to the overall profits. The study concludes that digital banking technology has contributed positively to the financial profitability of Standard Bank of Malawi. This could be attributed to the trends recorded in the variables where the access to digital platforms by users, reduction in operating cost and improvements in turnaround time had a positive and significant contribution on financial performance of Standard Bank of Malawi. This contribution however is not as much compared to the other traditional banking activities which do not rely on digital platforms.

IV. RECOMMENDATIONS

Recommendations for policy contribution

From the above conclusion, the study recommends that policy makers consider financial digital technology innovations in their formulation of policies because of the technological developments and the expected switch from traditional brick and mortar system to technologically supported banking services. This is because the impact of such innovations on financial performance could be higher if there is an increase in innovations. The banks have put in place measures to become more competitive by training its staff, investing in research and development of technology. In the long run, digital banking is likely to have major impacts on the profitability of commercial banks as it smoothens business operations.

Recommendations for the banking industry practice

The study recommends that the financial institutions should offer low transaction rates within their digital networks and ensure deposits of the various customers are protected at all times. This will lure customers to adopt this as a culture thus ensuring the future sustainability of using the digital platforms for banking services. Furthermore, if it's cheaper than the number of people in the remote areas who are unbanked may find it easier to use the banking services. The study recommends that banking institutions should consider coming up with lock in strategies for the already captured market. This will award more power to the bank in



controlling the prices and services it offers to its customers.

The study recommends that the banking institutions should be considered intensifying the Digital Banking network which will ensure services accessibility by customers and thus improving financial performance. Finally, the study recommends that commercial banks in Malawi should ensure that systems failures are kept at minimal so as to reduce its influence on the financial performance of commercial banks in Malawi.

V. AREA OF ANY FURTHER RESEARCH

This study sought to determine the effects of digital banking technology innovations on the financial performance of banking institutions in Malawi. The study suggests that further research be conducted on the effects of technology innovations on the financial performance of commercial and micro finance banks in Malawi.

The study recommends a detailed study around the challenges faced by commercial banks in adopting digital banking technology due to macroeconomic factors such, interest rates, legal frameworks, societal and cultural issues. The study found out that digital banking has increased immensely over several years and therefore recommends that a study be done on the impact of digital banking on the overall economy.

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