

**FACTORS AFFECTING USAGE OF INTERNET
BANKING IN SRI LANKA:
THE CASE OF LOCAL PRIVATE COMMERCIAL BANKS
IN COLOMBO DISTRICT**

By

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in partial fulfillment of the requirements for the
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Declaration

I Kankanamalage Mindika Meranga Kularathna Perera declare that the work described in this research was carried out by me under the supervision of Dr K.M.S.D.Kulatunga and a report on this has not been submitted in whole or in part to any university or any other institution for another Degree/Diploma

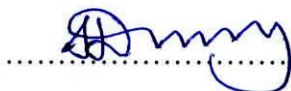


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I certify that the above statement made by candidate is true and that this Research is suitable for submission to the University for the purpose of evaluation.



(Research Supervisor)

06.05.2013

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ABSTRACT

According to traditional banking, in order to carry out banking transactions customers are suppose to undergo time wasting, tedious process by visiting branches. At the same time to fulfill customer requirements bank has to expand its branch network with all additional expenditure. Financial institutions can save considerable operating and marketing costs by encouraging their clients to use internet banking. But still Internet banking usage is at primary stage.

Therefore the purpose of this study is to identify factors affecting Internet banking usage in Sri Lanka. After an extensive survey of the existing literature, the researcher identified the variables. Researcher selected a sample of 300 internet bank users from Commercial Bank, Hatton National Bank and Sampath Bank. Five hypotheses were developed in this study. According to the hypothesis testing all of them are accepted. After considering all the factors, the researcher came to the conclusion that there is a very strong relationship between usefulness, ease of use, security, compatibility and information quality with Internet banking usage.

CHAPTER 1

INTRODUCTION TO THE STUDY

1.1 Background

Internet banking is a relatively new concept. It is a service, rendered by many banks and financial companies that allow conducting banking transactions through the Internet; such banking systems are called Internet banking. Mattila, Karjaluto, Mattila and Pento (2003, p. 514) defined Internet banking as; banks that do not have a physical location, but offer services only through the Internet. According to Sadeghi and Hanzaee (2010) Internet banking is a popular business model with a wide range of tools available to firms as a self service technology. According to Albert, Goes and Gupta (2004) Internet banking activities are more goal oriented. Pikkarainen, Pikkarainen, Karjaluto and Pahlila (2004) revealed that Internet banking transforms traditional banking beyond another channel.

Bart, Shankar, Fareena and Glen (2005) reported that Internet banking has evolved into an important channel and is now an integral part of a multi channel strategy for banks. Also the presence of the Internet banking service has expanded financial services dramatically. Pikkarainen *et al.* (2004) pointed out, since the 1980s; about 50 percent of all new capital investment in organizations has been in information technology. They further revealed that, since the mid 1990s, there has been a fundamental shift in banking delivery channels toward using self service channels such as Internet banking services. Mattila *et al.* (2003) revealed that Internet banking meets human and social needs profitably, this, coupled with Internet banking for understanding the user's requirements, to understand and design customer centric Internet banking. Ganguli and Roy (2011) has emphasized that Internet banking has changed the banking process, human-human interactions is becoming increasingly redundant and traditional branch banking is increasingly being replaced by Internet banking.

1.2 Sri Lankan banking landscape

According to the Central Bank report (2011) there were 12 local and 12 foreign 'licensed commercial banks in Sri Lanka'. As shown in Table 1.1 the Central Bank report further revealed that there were 5703 bank branches and other outlets which operate country wide, further there are 14 licensed specialized banks engaged in development banking.

Table 1.1 : Summary of banks in Sri Lanka

Category	End 2010	End2011
Licensed Commercial Banks	22	24
Domestic banks	11	12
Foreign Banks	11	12
Total No of LCB Branches & other outlets	5164	5347
Branches	1470	1581
Licensed Specialist Banks	9	9
Total No of LSB Branches & other outlets	757	775
Total No of Bank Branches & other outlets	5921	6122
Total No of Automated teller machines	2020	2240
Total No of point of sales machines	27588	27073
Banking Density	9.5	10.8

Source: Central Bank of Sri Lanka annual report 2011, p165

1.3 Internet penetration in Sri Lanka

The Internet is presently the fastest growing computer network in the world. It had roots as early as the 1960s. Since then Internet users increased exponentially. Hasim and Salman (2010) reported that 82% of the Internet users believed that the Internet will become a necessity in future.

According to the Central Bank of Sri Lanka annual report (2011) Internet penetration in Sri Lanka was extremely high. As shown in Table 1.2, in 2010 it experienced a 109% growth rate.

Table 1.2 : Summary of Internet penetration in Sri Lanka

Item	2010	2011	Growth Rate%	
			2010	2011(a)
Internet & E-mails(No)(000) (including mobile broadband services)	502	844	109.2	68.1

Source: Central Bank of Sri Lanka annual report 2011, p61

According to the Central Bank of Sri Lanka annual report (2011) Internet subscriber growth rate had considerable advancement. Further it pointed out significant subscriber growth observed in the mobile sector rather than traditional fixed lines. As shown in table 1.2, mobile phone Internet usage shows 42.1% growth while land lines reported only 9.8% growth.

Table 1.3 : Internet subscribers' growth rate

Year	Fixed	Growth rate	Mobile	Growth rate
2005	115,000	.187		
2006	130,000	.115		
2007	202,348	.357		
2008	234,000	.135		
2009	249,756	.063	91,359	
2010	302,000	.172	200,000	.543
2011	359,000	.158	485,000	.587
2012	398,094	.0982	839,928	.421

Source: www.trc.gov.lk/information/statistics.at19.30 on 26-11-2012

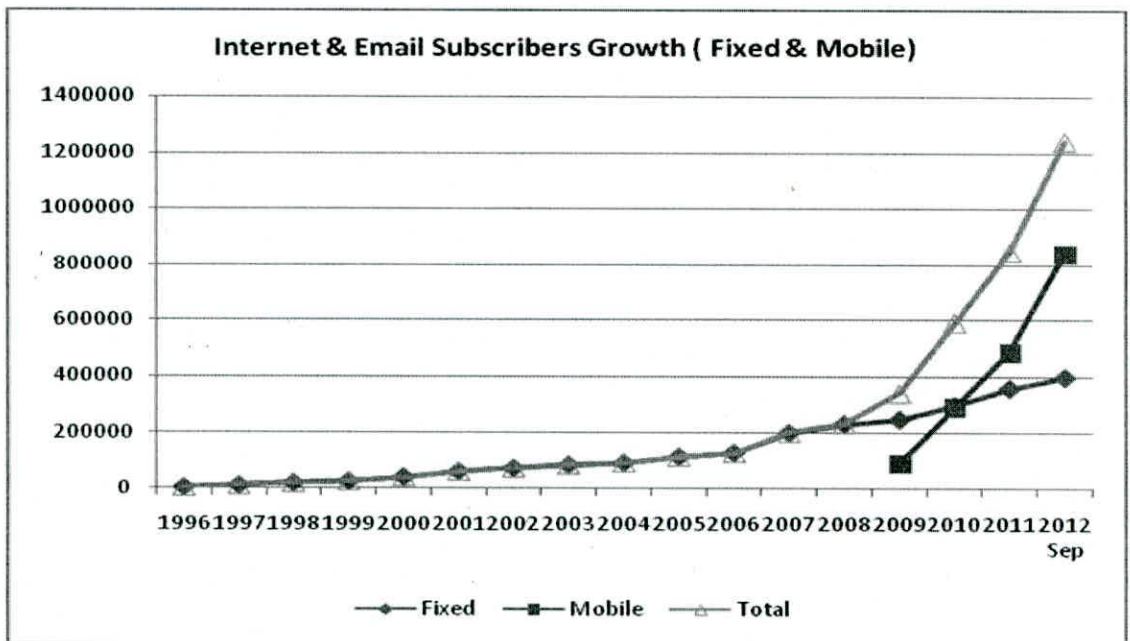


Figure 1.1: Internet and email subscribers' growth

Source: www.trc.gov.lk/information/statistics.html at 19.30 on 26-11-2012