

Online Banking: The Linchpin of Transactional Feasibility and the Future

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PLIR 4500, Fall 2019

Paper #2

10/22/2019

Abstract

The object of this paper is to extend off of Rajan's writing that discussed modern trends in financial development that he called "revolutionary." This paper asserts that of all recent technological changes, the development of online banking has had the most integral impact on transactional feasibility and therefore is the most revolutionary change yet. Evidence from various journals illuminates how online banking is logistically superior to traditional banking, engages in environmentally friendly behavior, and promotes entrepreneurial innovation. These factors together not only demonstrate online banking's prominence, but also illuminate its potential to grow in the near future.

According to Rajan, “Technological change [...] has made arm’s-length transactions more feasible,” but online banking in particular has had the most profound effect on transactional feasibility of all technological changes.¹ Online banking is logistically superior to traditional banking, environmentally friendly, and promotes entrepreneurial innovation.

Online banking is logistically far more feasible than traditional banking. Traditional banking involves physically going out of your way to bank. This factor could impede one’s schedule, as traditional banking can require customers to fight traffic to get to the bank, wait in long lines, and adhere to the bank’s operational hours. Online banking eliminates each of these barriers. Beyond being convenient for the customer, online banking is logistically beneficial for the bank itself. According to Pikkarainen et al. “[...] banks get notable cost savings by offering online banking services...it has been proved that online banking channel is the cheapest delivery channel for banking products once established.”² Online banking, in theory, should increase people’s financial self-awareness. With online banking, customers can check their bank balances at any time. They can do so anywhere, too, with a mobile application. In theory, this ability enables customers to make more informed financial decisions because they have up-to-date information about their monetary situation in their pockets. Unfortunately, little research has been done on this correlation, which is a limitation.

Alternatively, some may argue that personal relationships between bank branches’ personnel and customers are an important aspect of banking. “Getting to know the people at your local branch can be an advantage when a customer needs a loan or a special service that is not

¹ Raghuram G. Rajan, “Has Financial Development Made the World Riskier?,” *Proceedings-Economic Policy Symposium-Jackson Hole, Federal Reserve Bank of Kansas City*, 2005, 320, accessed October 21, 2019,

<https://collab.its.virginia.edu/access/content/group/ce295e56-c7d6-401b-bb53-31473ceec7f5/course%20readings/Rajan2005.pdf>.

² Tero Pikkarainen et al., “Consumer acceptance of online banking: an extension of the technology acceptance model,” *Internet Research* 14, no. 3 (2004): 225, accessed October 20, 2019, <https://www.emerald.com/insight/content/doi/10.1108/10662240410542652/full/html>.

normally offered to the public.”³ Furthermore, face-to-face contact is often more effective for people who have complex issues or unique needs; bank managers get to know their customers and can be willing to go the extra mile for them when needed, such as when they need a fee reversed or would like to change rates.⁴ There is also the possibility that, logistically, many customers find it easier to go to the bank in person instead of learning how to use the online banking system. Certain demographic groups, such as the elderly, mentally disabled, or anti-modernization communes (i.e. the Amish) may not understand or want to understand how computers, smartphones, and/or online banking work. This subset of the population, many of whom are less technologically savvy, may prefer this brick-and-mortar banking experience.

Another major advantage to online banking is that it is environmentally friendly. Online banking allows people to pay bills online and eliminates the need for paper statements. There has been a growing worldwide sentiment to help the environment by reducing paper waste. Lack of driving to a bank building also means reduced emissions. “Electronic transmissions require no paper, reduce vehicle traffic and are virtually pollution-free... They also eliminate the need for buildings and office equipment.”⁵ Without a doubt, climate change is one of the most prominent and important issues facing the world today, and online banking is doing its part to join the fight.

One drawback is that online banking requires people to have internet access. Regardless of environmental attention in recent years, not everyone has internet access. People in rural areas may see online banking as unreliable and potentially hazardous, given that these areas tend to have low quality internet service. Contrarily, online banking can benefit this demographic. Rural

³. Koskosas, "The Pros," 56.

⁴ Koskosas, "The Pros," 56.

⁵ Ioannis Koskosas, "The Pros and Cons of Internet Banking: A Short Review," *Business Excellence and Management* 1, no. 1 (December 2011): 55, accessed October 20, 2019, <http://www.beman.ase.ro/no11/4.pdf>.

residents may see this option as their saving grace; instead of having to drive miles to a bank, they can bank on their computers or phones. According to the World Bank, 87.3 percent of Americans are using the internet.⁶ Research by the renowned Pew Research Center shows that 77 percent of Americans have a smartphone.⁷ Consequently, 77 percent of Americans have the ability to use an online banking application on their phone. Rural areas clearly do have some access to the internet and smartphones. Although online banking may negatively or hardly impact a minority of the population, it can benefit the majority of the population.

Beyond the creation of online banking itself, this innovation has sparked entrepreneurial innovation by inspiring applications to assist with online banking. Money transfer applications, such as Venmo, are forms of online banking that have made transactions, arm's length or not, far more efficient. These applications allow customers to transfer money directly from their bank account to other users' bank accounts within seconds. Users start by making a Venmo account and connecting their bank information/credit or debit card to their accounts. Then users can pay or request money to or from other users. For example, if one user bought another user a slice of pizza for \$5.00, the person who paid can request \$5.00 from the other person, who receives a notification. The requester's phone also gets a notification stating whether or not the person has paid them back. In day-to-day life, this feature helps end common disputes about who owes whom money, when they owe it, and how much they owe. After receiving Venmo payments, users can keep the funds in their Venmo account for future purposes, spend it on their Venmo debit card (which many firms accept), or transfer the money into their bank account. Thus, these

⁶ "Country Profile: United States," wordbank, accessed October 20, 2019, https://databank.worldbank.org/views/reports/reportwidget.aspx?Report_Name=CountryProfile&Id=b450fd57&tbar=y&dd=y&inf=n&zm=n&country=USA.

⁷ Aaron Smith, "Record shares of Americans now own smartphones, have home broadband," pewresearch, last modified January 12, 2017, accessed October 20, 2019, <https://www.pewresearch.org/fact-tank/2017/01/12/evolution-of-technology/>.

applications are extremely versatile as well as efficient. Additionally, people can use Venmo as a form of social media, as it allows users to add friends and see notifications that depict who is hanging out with whom and the popular venues where users are spending money. Transferring money from bank accounts is a much slower process. Withdrawing cash from ATMs is also slower and often comes with hidden fees. Thus, online banking has created this market for applications like this that, in theory, could eliminate the need to carry bank cards or cash entirely. The electronic transmissions created by these applications are also environmentally friendly.

Venmo is simply one example of online banking promoting technological entrepreneurship and innovation; other applications also exist that create similar efficiencies and benefits. Genius Scan is an application that allows users to take pictures of a document and automatically upload it into a certain file format while cleaning up any shadows or watermarks. People often use it to take pictures of checks that they can upload to their bank and deposit online. Easy Bills Reminder is an application that keeps track of one's online bill paying while providing reminders about bills. A multitude of online banking assistance applications exist that serve to make banking more feasible, engage in environmental friendliness, and promote entrepreneurial innovation.

A common drawback to online banking, as with other automated processes, is that it may eliminate jobs. Specifically, streamlined financial advice online can hinder the need for more onsite banking consultants at local branches. According to Pikkarainen et al., "[...] banks have reduced their branch networks and downsized the number of service staff, which have paved the way to self-service channels [...]."⁸ Online banking's popularity has probably contributed to many smaller, local banks going out of business. Local banks may have been bought out by big

⁸ Pikkarainen et al., "Consumer acceptance," 225.

banks, who have large and efficient online banking systems. These are possible explanations as to how giant banks, such as Bank of America, JP Morgan Chase, Wells Fargo, and Citigroup escalated from a 17-percent market share of banks in 1995 to a whopping 59-percent market share in 2014.⁹ While these employment concerns are valid, online banking creates jobs in online sectors, as depicted through applications such as Venmo, Genius Scan, and Easy Bills Reminder. Additionally, growth of big banks requires creating jobs.

Online banking has been and will remain revolutionary; it has arguably had the most profound effect on transactional feasibility of all technological changes. Its logistical superiority, environmental friendliness, and basis for entrepreneurial innovation via applications have drastically increased the ease and speed of transactions. Although online banking is a relatively new concept and has imperfections, its pros heavily outweigh its cons. While Rajan commented on banks' evolving behavior, it is equally important to understand that banks' structures are evolving, and doing so for the better.

⁹ Stacy Mitchell, "One in Four Local Banks Has Vanished since 2008. Here's What's Causing the Decline and Why We Should Treat It as a National Crisis.," ilsr, last modified May 5, 2015, accessed October 21, 2019, <https://ilsr.org/vanishing-community-banks-national-crisis/>.

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