The Impact of Prices on the Demand for E-Payment Services: A Comparison of Iran and Norway

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ABSTRACT

In this study, the effect of pricing various payment transactions on the degree of their adoption has been studied by comparing payments in Norway (a country with transaction pricing) and Iran (a country without transaction pricing) through simultaneous equations. The results of estimating equation of payment services demands refer to the negative of price and positive effect of POS, ATMs, and income on the level of using such services. In addition, results indicate replacement of ATM and POS services. According to the findings, for decreasing liquidity in the society, the Central Bank can play a significant part by offering public training and necessary cultural and social ground among different social groups for using credit cards, and easy and secure access of POSs to the central SHETAB system.

Keywords: ATM, E-Payment, POS, Pricing, Services

INTRODUCTION

In recent decade, the service sector has witnessed a rapid growth in line with the advancement of technology leading to new services and products, marketing opportunities, etc. In banking world, development of technology has had a great impact on the expansion of payment methods and had increased the efficiency of banks. The main economic effects of the expansion of payment methods are increasing cash flow rate and changing monetary policies. Also, increasing the forces acting in global competition in banking industry, continuation of demand, and diversity of customer needs have led banks to turn to using mechanisms of e-commerce such as Internet and World Wide Web for offering banking services.

Demands for payment services are affected by economic variables such as the price offered, the price of the good replaced, and the income level of the user. Price is a key factor which directly affects the decision of consumer to use these services. It is also faced with issues like quantifying variables such as ease, adoption by user, security, and trust. There is evidence showing that users respond to pricing of these services. However, little evidence exists about the type of these responses in the area of payments which, together with other factors, makes

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it difficult to investigate the effect of prices on demand for e-payment services, although some results can be obtained deductively.

Pricing of payment transactions is rarely done in Europe and the U.S. Banks worry about losing their market share by being the first to price transactions; whereas, some countries like Norway have overcome this problem by determining the right time for directly pricing consumer payment. Although many studies have been conducted on the adoption of e-banking services, few studies have focused on the effect of prices on using such services (e.g. Humphrey, Kim, & Vale 2001; Bolt, Humphrey, & Uittenbogaard, 2008). In the present study, the effect of pricing the transactions of various payment services on the adoption of these services has been addressed by comparing the payment in Norway1 (a country which has transaction pricing) and Iran2 (a country which does not have transaction pricing)3.

In the next section, e-banking in Iran and Norway is reviewed. Then, the relative level of non-cash electronic and manual payments is considered which shows the growing trend of e-payments over paper. In section 2, the availability of ATMs and POSs is discussed because they are effective factors in using these services. In section 3, the statistical model, which is the simultaneous equation, is presented. In this section, the model is estimated using Superficially Unrelated Regressions (SUR). Finally, the results are discussed and necessary recommendations are offered for developing this sector.

E-BANKING

E-banking is one of the manifestations of Information and Communication Technology (ICT) revolution in economic arena. It has made a revolution in commercial methods and approaches increasing the speed and economy. E-payment has many levels according to which specific definition can be proposed. What can be observed at all levels is the use of computer software systems and digitally processable banking information fed to computer. The more we move toward higher levels, i.e. e-banking, the less there are manual operations, the more concentrated computer systems, the more extensive the available network, the less time and place limitation, and the more secure banking information.

E-Banking in Iran and World

Expansion and development of ICT around the world, emergence of personal computers, and need for mechanization of banking operation in the late 1960s caused banks to begin extensive activities for using computer systems. The main e-banking services which are nowadays offered in the world are: giving information about customers’ accounts, transferring money between and out of customers’ accounts, buying and selling stock, currency, issuing letters of credit and creating a secure connection between bank and customers. In Iran, e-banking services were first offered in 1370 in Tejarat and Sepah Banks. Iran’s membership in the international Swift network in 1371 can be considered as the first serious attempt about e-banking. On the other hand, approval of the comprehensive plan of banking automation in 1372 is regarded as the basis of offering modern banking services and moving toward e-banking in Iran. Other activities in this regard include the establishment of banking telecommunication satellite network as VSAT4 after the approval of the comprehensive plan and establishment of banking information exchange network (SHETAB) by the Central Bank in 1381 for launching and guiding the national switch for connecting the payment network of the banks together and preparing the ground for electronic interbank exchanges.

At present (Mordad 1391) the highest number of bank cards issued belongs to Mellat and Melli banks and the lowest number belongs to Saderat and Industry and Mining banks which are typically debit cards (different types of the cards are credit, debit, shopping, etc.). The highest number of ATMs belongs to Saderat and the lowest number belongs to Tose-e Saderat and Tose-e financial institute. Regarding
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