On Some Misconceptions Concerning Digital Banking and Alternative Delivery Channels

Aijaz A. Shaikh, Jyväskylä University School of Business and Economics, University of Jyväskylä, Finland
Heikki Karjaluoto, Jyväskylä University School of Business and Economics, University of Jyväskylä, Finland

ABSTRACT

A great deal of conceptual confusion surrounds the notions of digital banking and innovative alternative delivery channels that support banking and other financial transactions globally. The authors contend that the concepts of digital banking and associated delivery channels are ambiguous and restrictive; their usability has been undermined and their purpose and objective have, to a large extent, been misunderstood. Against this backdrop, the authors offer an inclusive definition of digital banking and delivery channels and provide logical explanations of these terms that can benefit scholars, the telecommunication sector, the banking industry, policy makers, and service providers (in terms of developing digital banking and marketing strategies). This article discusses the theoretical and managerial implications of the study results and presents recommendations for future research.

KEYWORDS

Alternative Delivery Channel, Banking Industry, Digital Banking Ecosystem, Digital Banking, Telecommunication Sector

INTRODUCTION

A substantial amount of literature has been written about electronic commerce, electronic business, digital banking technologies, channels, and innovations over the years. History shows that automated retail banking services in the finance services sector were instituted in the mid-1960s to facilitate the execution of electronic transactions using plastic (credit) cards (Benaroch & Kauffman, 2000). In the late 1960s and particularly in the early 1970s, banking companies in the USA and Europe deployed the first automated teller machine (ATM) (Hoehle et al., 2012). This was followed by the development of telephone banking services in the 1980s (Hoehle et al., 2012; Ahmad & Buttle, 2002) and point of sale (POS) debit services in approximately 1985 (Benaroch & Kauffman, 2000). With the emergence of the Internet in the 1990s, banking companies further extended their existing electronic banking outreach by offering web-based or Internet banking applications (Hoehle et al., 2012). Recently, the increasing usage of portable devices, such as cell phones, smartphones, and tablets, for banking purposes has changed the financial landscape and encouraged banking companies to provide mobile and branchless banking applications. Mobile banking (m-banking) was first introduced by the German company Paybox in collaboration with Deutsche Bank in late 1990. Initially, m-banking services were introduced and tested mostly in developed countries, i.e., Germany, Spain, Sweden, and the United Kingdom. In 2007, Kenya was the first developing country to introduce an m-banking service called ‘M-Pesa’ (Shaikh & Karjaluoto, 2015a). These innovative delivery channels enable consumers
to make real-time financial decisions conveniently, irrespective of time and location (Hoehle et al., 2012). Table 1 provides the coverage and scope of the services offered through various alternative delivery channels (ADCs).

Given the practical relevance and the state-of-the-art digital banking services, mainstream research has used various terms to identify digital banking, including ‘electronic banking’ (Karjaluoto et al., 2002), ‘virtual banking’ (Ahmadalinejad et al., 2015), ‘self-service banking’ (Eriksson & Nilsson, 2007), ‘Banking 2.0’ (Ahmadalinejad et al., 2015), and ‘electronic fund transfer’ (EFT, Federal Trade Commission, 2012). The gaps in our understanding of digital banking and associated channels are highly intriguing and difficult to overlook in different streams of information system and management literature. For example, previous research has provided a limited understanding of what constitutes digital banking and has often represented digital banking as Internet/online/net banking (Martins et al., 2014b), which obscures the essence and purpose of digital banking and its usefulness given that online/net banking is one of the alternative delivery channels of digital banking and that electronic banking involves many different types of transactions, rights, and responsibilities (Federal Trade Commission, 2012). In the current paper, the authors posit that the field of contemporary digital banking is rather young and marred by a number of shortcomings.

Against this backdrop, the research aims of this study are to synthesize prior research on digital banking, including ADCs; provide a clear understanding of the complex and heterogeneous digital banking technology, products and services; offer working definitions of digital banking and ADCs; and, finally, develop and present an integrated digital banking ecosystem.

However, it is important to clarify that this study does not conduct a full analysis of the field. Consequently, this study falls short in providing the reader with complete information about digital banking channels, products and services. Despite these limitations, this study offers some valuable theoretical and practical implications and recommendations for scholars and the practitioners engaged in research, marketing and decision-making processes pertaining to digital banking products and services. Thus, the authors use the term ‘digital banking’ to denote ‘consumer digital banking’ or ‘retail digital banking’.

To achieve the study’s objective, the authors utilized contemporary and historical published information consisting of several journal articles and conference proceedings. In addition, the authors referenced and included policy, law and regulatory documents and market surveys published by banking companies, central banks and research and popular advisory firms, such as Forrester Research, related

Table 1. Scope and coverage of alternative delivery channels (Sources: Shaikh & Karjaluoto, 2015a; Gupta et al., 2009)

<table>
<thead>
<tr>
<th>Alternative Delivery Channels</th>
<th>Type of service</th>
<th>Consumer base</th>
<th>Service ranking</th>
<th>Security concern</th>
<th>Outreach</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FIN N-FIN BAH Non-BAH</td>
<td>CONV EXP EOU H M L B UB1 UB2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATM banking</td>
<td>✓ ✓ ✓ –</td>
<td>Moderate High High ✓ – – ✓ ✓ –</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telephone banking</td>
<td>✓ ✓ ✓ –</td>
<td>Moderate Low Moderate – – ✓ ✓ – –</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>POS/merchant banking</td>
<td>✓ – ✓ –</td>
<td>Low Moderate High ✓ – – ✓ – –</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internet banking</td>
<td>✓ ✓ ✓ –</td>
<td>Moderate Free Moderate ✓ – – ✓ – –</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile banking</td>
<td>✓ ✓ ✓ –</td>
<td>High Low High – ✓ – ✓ – –</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Branchless banking</td>
<td>✓ ✓ ✓ ✓</td>
<td>High Low High – ✓ ✓ ✓ ✓ –</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social network banking</td>
<td>– ✓ ✓ ✓</td>
<td>High Free High – ✓ ✓ ✓ – –</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: FIN = financial; N-FIN = non-financial; BAH = bank account holder; Non-BAH = non-bank account holder; CON = convenience; EXP = expensiveness; EOU = ease of use; H = high; M = medium; L = low; B = banked; UB1 = Underbanked; UB2 = Unbanked.
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