CHALLENGES AND PROSPECTS OF ONLINE BANKING SYSTEM IN ABYSSINIA BANK AT WOLKITE BRANCH



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WOLKITE UNIVERSITY

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ABBREVIATIONS OR ACRONYMS

ATM = automatic teller machine

E-banking = electronic banking

EFPTS = Electronic fund at point of sale

EFS =Electronic fund transfer

IT = Information technology

PIN = Personal identification number

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ABSTRACT

Despite the growth of online banking adoption worldwide, Abyssinia banks continue to conduct most of their banking system transactions using traditional methods. The general objective of the study was on the challenges and prospects of online banking system in Abyssinia bank in wolkite branch. From this, three specific objectives were explored. A descriptive research design was employed to conduct this study. Both primary and secondary data were collected for the purpose of this study from the Abyssinia bank from the manager and employees respectively. The primary data are collected through questionnaire and interview and secondary data are collected through bank websites, annual report of the organization.

CHAPTER ONE

1. INTRODUCTION

1.1 Back ground of the study

The increasing competitive environment in the financial service market has resulted pressure to develop and utilize see alternative delivery channel in the world. The most recently delivery channel introduced is online or electronic banking are also known as e-banking (Daniel and Story1997) banking and other financial institutions have moved to online banking in their efforts to cut costs while maintaining reliable customer service (Kolodinsk and Hogarth, 2001). Online or electronic banking systems give everybody the opportunity for easy access to their banking activities. These banking activities may include but not limited to: retrieving an account balance, money transfers between a user's accounts, from a user's account to someone else's account, retrieving an account (worku, 2001).

The challenges on financial institute in the advancement of technology from country to country there will be information hacker, interruption of networks and lack of IT skilled man power (frastor etal 2000) and also the prospect That bank get from is to minimize the work load the customers are easy to access their wants to some time (Accenture ,2005).

In developed and developing countries are embracing online banking as a technology evolves, different kinds of online banking systems immerse. Reaching bringing a new dimension to the interaction between user and bank. they include online banking like e-mobile banking visa card and internet banking which are reliable ,easy ,fast and time safe for the customer (Gikondiand Bloor 2000 Linoa and Chevng 2002).The challenges and prospects In Abysinia bank Wolkite branch there is an interruption of networks ,lack of skilled man power the customer cannot utilize and adopt online banking facilities and the system needs serious follow up of supervisors then this paper try to address these challenges .Even the abysinia bank create awareness about the merit of these automated technology will impose challenges.

1.2. Statement of the problem

one main advancement technology has brought to us is the introduction of online banking. traditional and mortal bank is characterized by physical decentralization branches available around populated areas to give customers easy geographical access (Alninetal;2015). online banking does away with the need for most visits to the bank.

According to (SATHY, 2001) online banking system has the following advantage for instance, to facilitate the interaction of customers and employees, to increase the loyalty between customer and employees, it removes the traditional geographical barriers, it is mechanism for efficient and cost effective for the bank, it possesses a strategic risk of loss of business to this banks who do not respond in time. 0n the contrary even if online banking has many advantages but it has its own draw back this are like problem of lack of awareness on the benefit of new technology, free of risk among banks, lack of trained personnel on key bank, tendency to be content with existing structure people are resistance to new payment mechanism, frequent connectivity failure in mobile lines, frequent power interruption and wide spread of problem in internet connection.

This is not clear weather all customers want or are comfortable with electronic banking technology is changing at a rapid pace making it difficult for the bank to determine the best approach, channel with legally channels. Similarly, Abyssinia bank in Wolkite branch is one of the banks that deliver online banking service to satisfy his customer so.

The advancement of online banking is brought many changes for inter reaction of customers and bank such as save time, providing facility service to speed up the services for the customer to minimize the work load. Even though online banking has the above prospects but there are a challenge that hinder the service of online banking .These are interruption of networks, the system needs serious follow up of supervisors, lack of IT skilled man power head of connivance of clients to utilize less adopting online banking facilities and information hacking (NBE, 2009).consequently because of this problem specially interruption of power and network are the leading problem that hinder the online banking service for his customer from time to time.

So due to the above problem the researcher will motivate to conduct this research for the purpose of reducing those problems by discovering as much as possible their solution and finally to give constrictive advisable opinion to the Abyssinia bank.

1.3 Research Question

1. What are the challenges facing on the online banking system?
2. What mechanism should be taken to overcome those problem faces on online banking system?
3. What are the prospects get in online banking system?

1.4 OBJECTIVES OF THE STUDY

1.4.1 General objectives

The general objectives of the study are assessing the challenges and prospects of online banking system in Abyssinia bank.

1.4.2 Specific objectives

- To identify the challenges facing in online banking system
- To show the mechanism that should be taken to overcome those problems face on online banking
- To show the prospects get in online banking.

1.5. Significance of the study

Based on the study the researcher will improves his performance, The researcher will improve experience about how work good research paper, it will the customers improve easiest accessibility for customer account any branch and, it will help the organization to know and to address challenges for adoption of online banking system in the bank challenges facing customers. The research second Chapter is giving general knowledge about the scope and prospect of online banking; it will add some value to the research world for further investigation on the research topic. It will use the bank to minimize the work load on supervisor access as performs and. The research can serve as a starting point for further research on the same topic.

1.6 Scope of the Study

The study is focusing on identifying the challenges and prospects of online banking system of Abyssinia bank. This research considers mobile banking and visa card. The researcher wascollect data from manager and employees of the Abyssinia bank. These specific leads the researcher to easily analysis this information. Geographically this study focuses on Abyssinia bank wolkite branch.

1.7 Limitation of the study

When conducting this study, the researcher faced some problems, especially at the time of data collection. These were: - Some of the staff workers were busy on their work; due to this they gave an appointment for a number of days to offer the required data; and initially, the manager was not willing to give the secondary data because of its confidentiality. However, the researcher tried to overcome these challenges by tolerating the respondents' behavior and systematically approaching them to get the data. And also, small sample size or lack of representativeness, and time constraints affecting the depth and scope of the study

1.8 organization of the study

The study is organized as follows:-

In the first chapter there is the introduction part which contain background of the study, statement of the problem, objective of the study, research question, significance of the study, scope of the study was presented. In chapter two review of literature with its theoretical and empirical parts was presented. In chapter three methodology of study was presented. In chapter four consists of data analysis and presentation and the last chapter consists of conclusion and recommendation.

CHAPTER TWO

2. REVIEW LITERATURE

2.1 Theoretical review

2.1.1 Terms and concepts online banking system

The definition of online banking (E-banking) varies amongst researchers partially because online banking refers to several types of services through which bank Customers can request information and carry out most retail banking services via Computer, visa card, television or mobile phone (Daniel, 1999; Mols; 1998; Sathye, 1999).

Different authors have defined it in different ways based on their understanding of the application of electronic banking. According to Daniel (1999), online banking is electronic connection between the bank and customer in order to prepare, manage and Control financial transactions. Sathye (1999) also asserted that online banking can be defined as a variety of the following platforms: (a) Internet banking (b) automatic teller machine or visa card, (c) mobile banking, and (e) PC banking (or offline banks). In the opinion of Daniel (1999), online banking is online banking which allows customers to conduct financial transactions on a secure website operated by their retail or virtual bank, credit union or building society. This implies that E-banking is a service that allows an account holder to obtain account information and manage certain banking transactions through a personal computer via the financial institution web site on the internet. For many consumers, online banking means 24-hour access to cash through an Automated Teller Machine (ATM) or Direct Deposit of pay checks into checking or savings accounts (FTC, 2006). But electronic banking now involves many different types of transactions. Online banking, also known as Electronic Funds Transfer (EFT), is simply the use of electronic means to transfer funds directly from one account to another without the physical involvement of the bank personnel, rather than by cheque or cash. By using online banking system transfer an account holder can use:

- Salary deposited directly into bank or credit union account
- Withdraw money from account through an ATM machine with a Personal identification number (PIN), at any convenience, day or night

 Settle utility bills and other regular payments

 Transfer money between accounts

 Order payment to government offices like tax and pension

 Conduct transactions at the point-of-sale, using a credit/debit card rather than cash, credit or a personal check

 Use computer and personal finance software to coordinate Personal financial management process, integrating data and activities related to income, spending, saving, investing, recordkeeping, bill-paying and taxes, along with basic financial analysis and decision making.

2.1.2 Online banking Benefit from the Bank's point of View

According to a survey by booz, Allen and Hamilton, an estimated cost providing the routine business of a full-service branch in USA is $1.07 per transaction, as compared to 54 cents for telephone banking, 27 cents for ATM (Automated Teller Machine) banking and 1.5 cents for Internet Banking (Nathan 1999; Pyun et al., 2002). In Nordea,Finland, one online transaction costs the bank an average of just 11 cents, compared to$1 for a transaction in a brunch (Echikson, 2001). Average payment in internet bank or via direct debit cost 4 times less than payment in brunch. On actual cost side (cost side in the bank point of view) direct debit payment cost 16 times less and payment in internet bank 7 times less than payment in brunch. This indicates that E banking contribute a significant financial benefit to banks to which implement E banking. In addition to this E banking reduce the capital expenditure and staff cost of the bank. Significant saving of time by the automation of banking service processing and introduction of an easy maintenance tools for managing customer's money. The main advantages of E banking corporate customers are: (Aladwani, A. M.2001).

- Reduce costs in accessing and using the banking service
- Increased comfort and time serving
- Transaction can be made even after banking hour without the physical interaction of the bank 24 hours a day. This increases the productivity of both the bank and the Company
- Quick and continuous access of information and corporation will have easier Access to information as, check multiple accounts at the click of a button, better

cash management (Bank Away! 2001; Guru, 2002).

2.1.3 Economic Benefit of online banking system

The impact of the new economy on the entire economy growth has been studied in several research projects. For example (Pohjola, 2002) shows that the contribution of the use of information communication technology to growth of output in the finish market sector has increased from 0.3 percent in early 1990's to 0.7 percent in late1990's. Similarly, research conducted in Estonia (Arm and Vensel, 2001), bank customers use bank office on average 1.235 times per month, and wait in queue in bank office on average for 0.134 hours. Simple calculation shows that making payments using E banking facilities rather than in the banks office create overall economy savings in the amount of 0.93% of GDP (Arma and Vensel, 2007).

2.1.4 Types of online banking system

2.1.4.1 Internet banking

Internet banking is a new age banking concept. It uses technology and brings the bank closer to the customer. Internet banking refers to systems that enable bank customers to get access to their accounts and general information on bank products and services through the use of banks website, without the intervention or Inconvenience of sending letters, faxes, original signatures and telephone Confirmations (Thulani et al, 2009). For those that have access to the internet and a computer all you need to do is proceed to your bank's website and login. From there you have access to all of your accounts that you have at that bank. Transfer funds between your accounts with ease. You can also use online banking to see how much money you have in your accounts and where the money you have spent has gone. Broadly, the levels of banking services offered through internet can be categorized in to three types:

1. The Basic Level Service is the banks‟ websites which disseminate Information on different products and services offered to customers and members of public in general. It may receive and reply to customers‟ queries through e-mail.
2. In the next level are Simple Transactional Websites which allows customers to Submit their instructions, applications for different services, queries on their Account balances, etc., but do not permit any fund-based transactions on their accounts

3. The third level of Internet banking services are offered by fully transactional websites which allows the customers to operate on their accounts for transfer of funds, payment of different bills, subscribing to other products of the bank and to transact purchase and sale of securities The above forms of Internet banking services are offered by traditional banks as an additional method of serving the customer. There are also banks that deliver Banking services primarily through Internet or other electronic delivery channels. Some of these banks are known as virtual banks or Internet- only banks and may not have any physical presence in a country despite offering different banking services (Adriana, 2006).

2.1.4.2 Mobile banking

Mobile banking can be considered as a form of remote or virtual banking, which is essentially the delivery of branch financial services via telecommunication devices where the bank customers can perform retail banking transactions by dialing a touch-tone telephone or mobile communication unit, which is connected to an automated system of the bank by utilizing Automated Voice Response (AVR) technology (Balachandher et al., 2001).

2.1.4.2.1 Prospects of mobile banking

It allows consumers to phone their financial institutions with instructions to pay certain bills or to transfer funds between accounts (FTC, 2006). Geographical barriers as it could reach out to customers of different countries / legal.

1. It removes the traditional jurisdiction.

2. It has added a new dimension to different kinds of risks traditionally associate with banking, heightening some of them and throwing new risk Control challenges.

3. It poses a strategic risk of loss of business to those banks who do not respond in time, to this new technology, being the efficient and cost-effective delivery mechanism of banking services.

4. A new form of competition has emerged both from the existing players and new players of the market who are not strictly banks.

5. Another advantage of Internet banking is that it is cost-effective. Thousands of customers can be dealt with at once. There is no need to have too many clerks and cashiers. The administrative work gets reduced drastically with Internet banking. Expenditures on paper slips, forms and even

bank stationery have gone down, which helps raise the profit margin of the bank by a surprisingly large number.

2.1.4.3 Visa card (ATM)

ATM is also called 24-hour tellers are electronic terminals which give consumers the opportunity to bank at almost any time (FTC, 2006). ATM banking is one of the earliest and widely adopted retail E-banking services (Nyangosi et al. 2009). It is described as a combination of a computer terminal, record-keeping system and Cash vault in one unit, permitting customers to enter the bank's book keeping system with a plastic card containing a Personal Identification Number (PIN) or by punching a special code number into the computer terminal linked to the bank's computerized records 24 hours a day (Rose, 1999).

To withdraw cash, make deposits or transfer funds between accounts, a consumer needs an ATM card and a personal identification number. Once the customer login, access to transactions is displayed on the screen. It offers several retail banking services to customers. They are mostly located outside of banks, and are also found at airports, malls, and places far away from the home bank of customers. They were introduced first to function as cash dispensing machines (Abor, 2004). Some ATMs charge a usage fee for this service, with a higher fee for consumers who do not have an account at their institution. If a fee is charged, it must be revealed on the terminal screen or on a sign next to the screen Rose (1999).

2.1.4.3.1 Prospects of visa card

Visa card services have a lot of advantages. They include increase in productivity during banking hours if the service is available in addition to the human tellers. They are Cost-effective way of achieving higher productivity per period of time. Furthermore, it saves customers time in service delivery as alternative to queuing in bank halls, customers can invest such time saved into other productive activities (Abor, 2004). In addition, ATMs continue to serve customers whiles human tellers in the banking hall have stopped work, thereby increasing productivity for the banks. And also reduce the work load of the employees.

2.1.5 Electronic Funds Transfer at Point of Sale (EFTPoS) or checks

An Electronic Funds Transfer at the Point of Sale is an on-line system that allows customers to transfer funds instantaneously from their bank accounts to merchant accounts when making purchases (at purchase points). A POS uses a debit card to activate an Electronic Fund Transfer

Process (Chorafas, 1988). Point-of-Sale Transfer Terminals allow consumers to pay for retail purchase with a check card, a new name for debit card. This card looks like a credit card but with a significant difference, the money for the purchase is transferred immediately from your account to the store's account. Increased banking productivity results from the use of EFTPoS to service customers shopping payment requirements instead of clerical duties in handling cheques and cash withdrawals for shopping. Furthermore, the system continues after banking hours, hence continual productivity for the bank even after banking hours. It also saves customers time and energy in getting to bank branches or ATMs for cash withdrawals which can be harnessed into other productive activities (worku, 2004). Some banks issued international cards (such as Visa, MasterCard etc.) to their customers. Such cards can be used wherever accepted, and payment on the cards can only be done through an ordinary domiciliary account of the cardholder, or any other account that may be permitted. Some of these cards are credit or debit cards.

2.1.6 Credit Cards

A credit card is a small plastic card issued to users as a system of payment. It allows its holder to buy goods and services based on the holder's promise to pay for these goods and services. The issuer of the card creates a revolving account and grants a line of credit to the consumer (or the user) from which the user can borrow money for payment to a merchant or as a cash advance to the user (Mavri & Ioannou, 2006). A credit card is different from a debit card in that it does not withdraw money from the users account after every transaction. The issuer lends money to the consumer to be paid to the merchant. Holders of a valid credit card have the authorization to purchase goods and services up to a predetermined amount, called a credit limit. The vendor receives essential credit card information from the cardholder, the bank issuing the card actually reimburses the vendor, and eventually the cardholder repays the bank through regular monthly payments. If the entire balance is not paid in full, the credit card issuer can legally charge interest fees on the unpaid portion.

2.1.7 Debit Cards

A debit card (also known as a bank card or cheque card) is a plastic card that provides an alternative payment method to cash when making purchases. Functionally, it can be called an electronic cheque, as the funds are withdrawn directly from either the bank account or from the remaining balance on the card. In some cases, the cards are designed exclusively for use on the

internet, and so there is no physical card (Mavri &Ioannou, 2006). In many countries the use of debit cards has become so widespread that their volume of use has overtaken or entirely replaced the cheque and, in some instances, cash transactions. Like credit cards, debit cards are used widely for telephone and Internet purchases and, unlike credit cards, the funds are transferred immediately from the bearer's bank account instead of having the bearer pay back the money at a later date. Debit cards may also allow for instant withdrawal of cash, acting as the ATM card for withdrawing cash and as a check guarantee card.

2.1.8 Characteristics of online-banking system

E-banking includes the systems that enable bank customers to access accounts, transact business, or obtain information on financial products and services through a public or private network, including the Internet. Customers access E-banking services using an intelligent electronic device, such as a Personal Computer (PC), Personal Digital Assistant (PDA), Automated Teller Machine (ATM), telephone (Ibrahim et al 2006). performance of banks is better in terms of ROE, higher commission income and lower general expenses. The adoption of mobile banking as a delivery channel has a positive impact on banks profitability measured both in terms of ROE and no statically significant impact on risk (hernando and nieto, 2005).

2.1.9 on-line banking system Fraud

Convenience is the key reason of why millions of people are opting out of traditional banking for online banking. Banks also enjoy providing the option of online banking because they can save on operating costs. Most internet banking fraud occurs in a two-step process. Firstly, the offender must get their hands on the customer's account information, like their username and password. Secondly, the offender will use that information to move his victim's money to another account or withdraw it to make fraudulent purchases. For the first step, offenders often employ one of the many popular fraud schemes to obtain personal information. These fraud schemes include, but are not limited to: - “Over the shoulder looking” scheme: involves the offender observing his potential victim making financial transactions and recording the personal information used in the transaction. - "Phishing" scheme: stems from the two words "password" and "fishing. “It entails sending e-mail spasm and mail supposedly from the consumer's bank as a way to obtain the consumer' personal information, social insurance number, and in this case their online banking username and password (Kaleem & Ahmed, 2008).

2.1.9.1. Security Measures to avoid online banking system Fraud

Kaleem and Ahmad (2008) argued that in undertaken E-banking transactions, customers are always concerned about hackers and anti-social elements. Hacking enables the unethical hackers to penetrate the accounts of online bankers, and spend their money. Availability of confidential information which is just secured by a username and password makes it vulnerable to such threats. Most of the banks try to make their sites secured by implementing latest network security software. Learn to keep your cards, documents and passwords safe, and monitor your accounts to safeguard yourself from bank fraud committed through identity theft. Most importantly, find out how to protect your personal information to avoid identity theft from happening to you (BSP, 2006). E-bankers should install virus scanners and keep them and their systems up-to- date especially PC banking. They should avoid practices that easily lead to security hazards in particular they should not start up arbitrary executable attachments received via electronic e-mail. Users should check fingerprints of certificates against the fingerprints that are (should be) given by the bank on official paper documents (Claessens et al., 2002; BSP, 2006).

2.1.10. Review of online Banking Practices in commercial bank of Ethiopia

In Ethiopia, 16 private and three state owned banks are operating tell the end ofNov.2015 Despite a rapid increase in the number of financial institutions since financial liberalization, the Ethiopian banking system is still underdeveloped compared to the rest of the world. The use of checks is mostly limited to government institutions, NGOs and some private businesses. The common banking functions provided by public and private banks in Ethiopia are deposit mobilization, credit allocation, money transfer and safe custody. Banks in Ethiopia are unable to improve customer service, design flexible and customized products, and differentiate themselves in a market where product features are easily cloned. Ethiopian banking is unable to come from long way of being sleepy to a high proactive and dynamic entity. the Ethiopian banking industry as a whole has a network of 2,502 branches (Birittu,No.120),which is the lowest compared to the size of the country (1.1milion squareKm) and number of population (more than 90 million) and this shows that the number Of population hard being served by a single branch stood at around 34,373(Birittu No. 120)With such highly scattered branch network and disintegrated working system it is to ensure efficient flow of financial resources and optimize the contributions of the entire financial system to the development processes.

Abyssinia banks In Ethiopia are too fast to move with technological advancement and they should clearly chart out the time schedule for their integration and technological advancement. some of the banks even today do not have information websites, which can help them to provide at least the information on financial services offered by them (NBE,2008/09).

According to IMF data Ethiopia lag far behind from sub- Saharan African countries in terms of access of finance. (Birittu No.120) Product of the Ethiopian Banking sector did not fully benefit from the current Technology advancement.

2.1.11. Technologies Used in the online Banking system

Nowadays, banks can use advanced technologies and internet, networks, payment cards, Automated Teller Machine (ATMs) and so on. This is one is of the prospects that Enables banks to increase the efficiency and productivity. The banking business has continued realizing the advantages of the cutting-edge Information and communication technology. It has become essential to effectively implement the appropriate technology to have faster decision support and effective data Integration in the financial intermediary process and also to look for other avenues to augment income. Concerning the sectorial outlook, there are emerging initiatives to invest in electronic multi-service channels and also a tendency to optimally utilize the available resources in consortium, which partly supports the effective implementation of the envisaged national payment system. Additionally, the ongoing efforts of emplacing the electronic Laws focusing on the retail banking business are expected to have a positive effect on the growth of the payment card business.

These are other opportunities for banks to expand their activities and ultimately realize a second-generation reform in the Ethiopian financial sector (worku, 2009/10) In this regard; Abyssinia Banks are still at the early stage to implementing modern Banking technology and value-added service provision. Withstanding the prevailing long attachment of branch-based service channel, which is perceived to lead the society to only value human interaction, are succeeding in effectively implementing both the branch-based and impersonal banking service channels. Though the bank has gone through various challenges in popularizing and penetrating the market through electronic delivery channels, we are now at the level of encouraging recognition and flexibility to adopt the new habits as alternate service channels. The bank is able to reap better returns by way of increasing non-interest income from diversified service offerings and total

solutions to the customers. Anticipating a further reduction in the processing time and upholding service efficient bank attempting to continue introducing modern banking services and further leverage our technologies to provide the highest level of customer services and convenience, while keeping cost of access to the minimum.

The bank resolutely pursues taking unique initiatives to reach for all relevant modern financial services and to uphold the delivery of convenience banking on a 24/7 base. Ethiopian banking system is one of the most underdeveloped compared to the rest of the world. In Ethiopia cash is still the most dominant medium of exchange and electronic banking is not well known, let alone used for transacting banking business. All banks in Ethiopia are too late to move with technological advancement and they should clearly chart out the time schedule for their integration and technological advancement. But unlike other E-banking delivery channels all most all banks has installed ATMs at Convenient locations for their cardholders. Currently, debit service only gives for Visa and master cards and clients of respective banks can withdraw cash and can buy goods and services by using the debit card. (Work, 2010). To realize high quality service delivery standards, Abyssinia Bank has kept on playing a leading role in the adoption of appropriate modern banking technologies.

The service will entitle customers to conduct banking transactions using their mobile phones, Abyssinia bank also implement Mobile banking. Abyssinia bank starts internet banking to its customers in 2012 with the service of view report, check balance and print report. Till date this service does not have any improvement. Electronic Banking has been widely used in developed countries and is rapidly expanding in developing countries. In Ethiopia, however, cash is still the most dominant medium of exchange, and electronic payment systems are at an embryonic stage. In the face of rapid expansion of electronic payment systems throughout the developed and the developing world, Ethiopia's financial sector cannot remain an exception in expanding the use of the system. Currently most of the Abyssinia banks in Ethiopia start to offer some of the futures of E-banking to its customers. Even the internet banking offered by the Abyssinia bank serve only within the bank's branch. Still cross bank transaction through E-banking not yet starts in Ethiopia. But there is a start in relation to ATM service which offers by five private commercial banks jointly.

2.1.12. Challenges of online banking (Mobile banking and visa card) system

According to M. M. Rahman (2008) in Bangladesh despite huge demand from the business community as well as the retail customers particularly the urban customers, electronic banking (e-banking) is still at a budding state due mainly to a number of constraints such as unavailability of a backbone network connecting the whole country; inadequacy of reliable and secure information infrastructure especially telecommunication infrastructure; sluggish ICT penetration in banking sector; insufficient legal and regulatory support for adopting e- banking and so on. The concept of e-banking includes all types of banking activities performed through electronic networks. It is the most recent delivery channel of banking services, which is used for both business-to-business and business-to-customer transactions.

However, in true sense, e-banking includes activities like payment of bills and invoices, transfer of funds between accounts, applying for a loan, payment of loan installments, sending funds to third parties via emails or internet connections regardless of where the client is located. Leow, Hock Bee (1999) state that the terms PC banking, online banking, Internet banking, telephone banking or mobile banking refers to a number of ways in which customer can access their banks without having to be physically present at the bank branch. Therefore, e-banking covers all these ways of banking business electronically. Since e-banking offers some smart services benefiting both banks and customers compared with traditional banking system, it has become imperative to make necessary room for banks to flourish e-banking. Among others, attractiveness of e-banking includes: it lowers transaction cost; provide 24- hour services; ensure increased security and control over transactions; reduces fraud risk; performs higher volume of transactions with less time; increases number and volume of value payment through banks; allows remote transactions facilities that replace physical presence of a customer in a bank branch and; increases transaction speed and accuracy.

On the other hand, traditional banking is time-consuming and more costly and therefore, e-banking is replacing traditional banking all over the world, indicated that incompatibility with the existing system, cost of implementation, security concerns, lack of expertise, inadequate legislation and consumer acceptance are the major challenges of online banking. But the good thing is that the benefit out weighted the challenges in many parameters. Specially country like Ethiopia which have a huge potential customer for such service coupled with a fast-growing

economy will be the main advantages of the banking service to offer different products with the help of technology to their customers. In addition, as investigated by Alhaji Ibrahim H. (2009) the following are among the critical challenges of visa cards.

- **Lack of Technological Infrastructure** – the implementation of e-payment is been impeded by unavailability of ICT infrastructure. Most rural areas where majority of small and medium scale industries are concentrated have no access to visa card facilities and ICT Equipment

- **Costs –** where available, the cost of ICT is a critical factor relative to per capital income. This makes the cost of entry higher compared to developed countries.

- **Regulatory and Legal Issues** – inexistence of proper legal and regulatory framework.

- **Non-readiness of banks and other stake holders (acceptability)** – even though some have shown impressive willingness, some banks are still not fully ready to for this new payment regime.

Resistance to changes in technology among customers and staff due to:

- Lack of awareness on the benefits of new technologies

- Fear of risk among banks

-Lack of trained personnel in key organizations and

- Tendency to be content with the existing structures

People are resistant to new payment mechanisms;

-Security where disclosure of private information, counterfeiting and illegal alteration of Payment data may be rampant. The critical challenges on mobile banking

- Frequent connectivity failure in telephone lines

- Frequent power interruption

- Wide Spread Problem of internet connection

2.1.13 Prospects of online Banking system

According to M.s, M Rahman (2008) in Bangladesh e-banking is now a global phenomenon. apart from the developed countries, the developing countries are experiencing strong growth in

e-banking. the government's emphasis on setting up ICT park, raising allocation for developing ICT infrastructure, waiving taxes on computer peripherals and other measures including the automation program of banking sector and competition among the scheduled banks in improving customer services have accelerated the prospects of online-banking. The fact that the overall Abyssinia banks branch in Ethiopia compared to the size of the population and the area of the country is very minimal. it creates a good advantage to expand online banking facilities and reach the wide spread population of the country through virtual banking system. Electronic banking systems provided easy access to banking services. The interaction between user and bank has been substantially improved by deploying ATMs, Internet banking, and more recently, mobile banking (Claessens et al. 2002).

Online banking (E-banking) reduces the transaction costs of banking for both Small and Medium Enterprises (SMEs) and banks. SMEs need not visit banks for banking transactions, providing round the clock services (Cheng, 2006) customers prefers E-banking for conveniences, speed, round the clock services and access to the account from any parts of the world (Cheng, 2006). E-banking offers benefits to banks as well. Banks can benefit from lower transaction costs as E-banking requires less paper work, less staffs and physical branches (Cheng, 2006). E-banking leads to higher level of customers' satisfaction and retention (Poatoglu & Ekin, 2001). Online banking reduces loan processing time as borrower's loan application can be viewed by loan processing and loan approval authority simultaneously (Smith & Rupp, 2003). Typically, loan applications received at branch level and send to head office for approval. These documents transfer to and from branch to head office consume much time and delay loan sanction period (Riyadh et al., 2009). The benefits of online banking identified from the current literature are classified in two main categories - tangible and intangible.

Tangible benefits;

- Increase automation process
- Transformation of traditional market chain
- Retained and expand customer base
- Reduced operational costs
- Acquisition of each market
- Increase business efficiency

Intangible benefit:

- Enhance wellbeing and education of customers
- Competitive advantage
- Convenient banking

2.2 Empirical Review

Some related studies are conducted by different researchers in different parts of the world. However, there are limited numbers of studies conducted in Ethiopia on the implementation of Technological innovation. Specifically, Gardachew (2010) conducted research on the Opportunities and challenges of online banking in Ethiopia. The aim of his study was focused on analyzing the status of online banking in Ethiopia and investigates the main challenges and Opportunities of implementing online banking system. The author conducted a survey on the existing operating style of banks and identifies some challenges of using online banking system, such as, lack of suitable legal and regulatory frame works for E-commerce and E- payments, political instability in neighboring countries, high rates of illiteracy and absence of financial networks that links different banks.

According to Gardachew (2010), Opportunities offered by ICT through e-Learning Programs and Commitment of the governments on development of ICT infrastructures is considered as Drivers of using E-commerce and E-payment systems. wondwosen and Tiega (2005) also studied on the challenges and opportunities of E-payments in Ethiopia; their objective was studying of E-payment practices in developing countries, Africa and Ethiopia. The authors employ interview and on-site observation to investigate challenges to E-payment in Ethiopia and found that, the main obstacles to the development of E-payments are, lack of customers trust in the initiatives, Unavailability of payment laws and regulations particularly for E-payment, Lack of skilled manpower and Frequent power disruption.

According to Wondwossen and Tiega (2005), an adequate legal structure and security framework could foster the use of E-payments, which is contradicting with the finding of the previous study. On the other hand, the study conducted by Doghouse and Toufaily (2007) on the success and critical factors in adoption of online banking by Lebanese banks. The research was conducted on the factors that can lead to success the adoption of online banking and the other factors that can constitute as barrier to its adoption, it focuses on the organizational, structural and strategic

factors which can accelerate or, on the contrary, slow the adoption of this electronic mode of distribution and communication by the banks, through analyzing the case of the Lebanese market.

The main obstacles and barriers the Oppose online banking practice are the concern of security, privacy of information and technology Investment cost. The literature also indicates that according to the customers there are different Factors related to the service itself and how to be accepted and used by the customers, which Differs from country to country. According to M.s, M Raman (2008) in Bangladesh online banking is now a global phenomenon. Apart from the developed countries, the developing countries are experiencing strong growth in online banking. The government's emphasis on setting up ICT park, raising allocation for developing ICT infrastructure, waiving taxes on computer peripherals and other measures including the automation program of banking sector and competition among the scheduled banks in improving customer services have accelerated the prospects of online banking. The fact that the overall Abyssinia banks branch in Ethiopia compared to the size of the population and the area of the country is very minimal, it creates a good advantage to expand online banking facilities and reach the wide spread population of the country through virtual banking system.

2.3 Conclusion and Knowledge Gap

To sum up this chapter covers the theoretical and empirical literature review. In the theoretical literature review some concept related to the research problem presented and discussed. Those concepts are definition of challenges and prospects of online banking system in Ethiopia, future challenges and prospect of online banking system some of the previous studies related to the research problem are presented under the empirical literature review. How to relate and conduct the gap between the previous researcher study and finding are presented under this topic. Generally, most the previous study related to the research or focused on the employment and income generation of online banking system, do not conducted on the challenges and prospect of online banking system in Ethiopia. Because of this the researchers are motivated to fill this gap and in this problem in the best way.

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1. Description of the study area

The study focuses on the Abyssinia Bank Wolkite branch, located in Wolkite, the administrative center of the Gurage Zone in Central Part of Ethiopia. Wolkite is positioned approximately 158 kilometers southwest of Addis Ababa, the capital city of Ethiopia, making it a significant hub for trade and commerce in the region.

As a growing urban center, Wolkite has seen an increase in population and economic activities, leading to a rising demand for efficient banking services. The Abyssinia Bank branch plays a pivotal role in meeting these financial needs through its online banking system. However, this research investigates various challenges faced by the bank in implementing effective online banking solutions, including issues related to customer digital literacy, internet accessibility, and security concerns.

Simultaneously, the study explores the prospects for enhancing online banking services in this context, focusing on strategies to improve customer engagement and technological infrastructure. By analyzing these dynamics, the research aims to provide insights that can help the bank better serve its client and foster economic growth in Wolkite.

3 .2 Research Approach

The researcher used both quantitative and qualitative approach to conduct the study. The reason for use those approaches are to express the data in terms of in number and in statement respectively.

3.3 Data type and source

The researcher was used both primary and secondary data source. The primary data sources were collected from interview from top management and employees. Secondary source was gathering from intensive examination of literature, annual report of the bank and web sites.

3.4. Data collection method and procedure

The researcher was used survey method for the purpose of collecting the necessary data from respondents. The reason behind this used survey method is to get the data through using both questioners and interview. Also include both open ended and close ended questions.

3.5 Census

According to the data obtained from Abyssinia bank wolkite branch (2024) there are 11 employees that are concerned with the bank operation. By considering that the researcher decides to use census method that means using all 11 employees as respondents. The rationally to use census method is if the number of populations is under 100 its recommended to use all population as a target population for the study

3.6. Method of data analysis and procedures

The researcher will use descriptive research to conduct the study the reason for selection of descriptive research is the study was needed descriptive analysis tools and it appropriate to achieve the research objective. After the relevant data collected from primary and secondary source the researcher analyses, summarize and interpret the data using tables and percentages

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

The study is intended to challenges and prospects of online banking system in abyssinia bank at wolkite branch. The researcher has collected primary data through questionnaires. By using census method, the questionnaires were distributed to 16 employees of the Abyssinia bank. All distributed questionnaire is responded correctly. The result of questionnaire is presented and analyzed one by one using tabulation and percentage forms.

4.1 characteristics of respondents

Table 4.1 characteristics of respondents

No	Item	Alternatives	Respondents	Percentage
1	Sex	Male	7	63.63%
		Female	4	36.37%
		Total	11	100%
2	Age	Below 20	-	0%
		21-30	6	54.55%
		31-40	4	36.37%
		Above 41	1	9.08%
		Total	11	100%

Source: (survey, 2025)

As it is shows in the table 4.1 above out of the total respondents the majority of the respondents 7(63.63%) are male and the remaining 4(36.37%) are female. This implies that the majority of respondents are male employees. The second item of the table 4.1 shows the age distribution in Abyssinia bank. Out of the total respondents, majority respondents 6(54.55%) are found between the age interval of 21-30 years, 4(36.37%) respondents found between 31-40 years, 1(9.08%) are

found the age interval of above 41 years. So, this implies that the majority of the respondents are in working age group.

4.2 work experience of respondents

Table 4.2 work experience of respondents

No	Item	Alternative	Respondents	Percentage
1	Work experience	Less than 3 years	4	36.36%
		3-6years	4	36.36%
		Above 6 years	3	27.28%
		Total	11	100%

Source: survey, 2025

The third item of table 4.2 show work experience of the employees. Out of total respondents 4(36.36%) have less than 3 years' work experience 4(36.36%) respondents have 3-6 years' work experience and 3(27.28%) respondents have years' experience above 6 years. From this most employees of the Abyssinia bank have a year experience less than 3, and 3-6 years. This implies that the organization have good experience employees about banking industry and online banking. So, in these organizations most of employees are the key to solve any problems in the organizations.

4.3 challenges faced while using online banking

Table 4.3 challenges faced while using online banking

Challenges	**frequency**	Percentage
Technical issues (e.g., login problems, system crashes)	**4**	36.36%
Complexity of interface	**1**	9.09%
Security concerns (e.g., hacking, fraud)	**2**	18.18%
Lack of trust in online transactions	**4**	36.36%

Limited features	-	0 %
Total	**11**	1 0 0 %

As indicated the above 4.3 regarding to challenges faced while using online banking,4(36.36%) of the respondents said that challenges faced in online banking is challenges of technical issues (e.g., login problems, system crashes), and the other 4(36.36%) of the respondents said that challenges faced in online banking is challenges of Lack of trust in online transactions, 2(18.18%) of respondents said that challenges faced in online banking is challenges of Security concerns (e.g., hacking, fraud), 1(9.09%) of respondents said that Complexity of interface. This shows that most of challenges faced in online banking is challenges of technical issues (e.g., login problems, system crashes) and Lack of trust in online transactions.

4.4 To measure t**he extent** that challenges online banking

Table 4.4 **To measure the extent do you agree with the following statements?**

Challenges of Online Banking	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Lack of technological skills limits my ability to use online banking effectively.	-	8	2	1	-	11
Technical issues frequently disrupt my banking activities.	2	8	1	-	-	11
Online banking services do not offer sufficient features for my needs.	-	2	2	3	4	11
Concerns about fraud and hacking affect my confidence in online banking	2	7	2	-	-	11

As indicated the above 4.4 Table regarding to measure the extent of challenges of Online Banking, the study reveals that while a majority of users feel somewhat competent in their technological

skills, there remains a notable concern regarding the impact of technical issues on their online banking experience. Specifically, 73% of respondents agree that a lack of technological skills limits their ability to use online banking effectively, indicating a potential need for user education and support. However, the absence of strong agreement suggests that while some users may struggle, others feel more capable.

Additionally, the findings indicate that technical disruptions are a significant barrier to user confidence, with 91% of respondents acknowledging frequent issues that affect their banking activities. Coupled with the 82% expressing concerns about fraud and hacking

4.5 Mechanism that should be taken to overcome those problems face on online banking

4.5.1 Respondent responses about system safeguarded against viruses.

As per the response given by the respondents the system safeguarded against virus by using; proper follow up through security checkups, updating software periodically, antivirus scan in computer monitor, its own system administrator, 24 hours check up by antivirus scan, using enough security system to protect the system from viruses, And generally there is a department which is called IS (information system) decisions which established for these purpose and loading recent anti viruses, however, these protection methods does not safeguarded viruses

4.5.2. Response of respondents about institutions conducting regular systems of testing and evaluation of online banking system

Majority of the respondent says the institution conducts regular system of testing by server administrator, and maintain the online banking system every day properly to check online banking is work day to day or not, because the system needs great follow up, but some the respondent says, when the network fails and starts to work, the online banking system must be test.

Based on Primary data that are obtained from interview questions that provided for challenges and prospects of online banking system in Abyssinia bank in wolkite Branch.

According to the response of managers in Abyssinia bank Wolkite branch there exists challenge on mobile banking system. Such challenges are the following;

-interruption or failure of networks

-Less awareness of the literate people

- Less understanding of the employees about the system

And also challenges face on visa card are;

- Network interruption

- Interruption of electricity

- Less awareness of the public

-Less awareness of the staff employees

According to the responses of manager Abyssinia bank Wolkite branch, there is the above Challenges but also the following prospects that the bank gets from such on mobile banking system and visa card. **Prospects of mobile banking;**

-The easiest to give quality service

-It reduces risks

-It used to transfer money and used to know the remaining balance on the account

Prospects of visa cards;

-easy to get cash at any time

-easiest to give quality service

-it used to create cash less societies

According to the response of managers, to uses any mechanism to solve or overcome the challenges faces on visa card and mobile banking systems.

These mechanisms are;

-developing tele infrastructure

-consistent awareness creation on visa card and mobile banking access users ask for the responsible body of electricians to solve the problem that faced on visa card and mobile banking system

Interviews at Abyssinia Bank's Wolkite branch revealed significant challenges in online banking, including network interruptions, low awareness among the public and staff, and inadequate understanding of the system by employees, which frustrates both customers and staff. However, managers see potential in mobile banking and visa cards to improve service quality, enable cashless transactions, and enhance customer convenience. To overcome these challenges, the bank should invest in telecommunication infrastructure, conduct awareness campaigns, and ensure regular system updates and robust security measures, ultimately aiming to improve customer satisfaction and loyalty.

CHAPTER FIVE

5. CONCLUSIONS AND REC0MANANTI0N

Based on data presented and analyzed, this chapter mainly deals with conclusion and recommendation. The conclusion part is about concluding based on findings under previous chapter. In addition to this, based on the conclusion draw in, the researcher would like to state or forward appropriate recommendation.

5.1 Conclusion

The following conclusions is drawn

The survey conducted among employees at Abyssinia Bank's Wolkite branch reveals a predominantly male workforce, with 63.63% identifying as male and 36.37% as female, which may influence workplace dynamics and perspectives on online banking services. The age distribution indicates a youthful workforce, with 54.55% of employees aged 21-30 and 36.37% aged 31-40, suggesting adaptability to technological advancements in banking. Regarding work experience, 36.36% of employees have less than three years of experience, another 36.36% have between three to six years, and only 27.28% possess more than six years of experience. This mix of youth and varying levels of experience creates an opportunity for collaboration and knowledge sharing, positioning Abyssinia Bank well to address challenges in online banking and enhance service delivery and operational efficiency.

The findings from the survey on challenges faced while using online banking at Abyssinia Bank's Wolkite branch highlight significant barriers that impact user experience and confidence. A notable 36.36% of respondents identified technical issues, such as login problems and system crashes, as a primary challenge, reflecting a critical area for improvement in the bank's online services. Additionally, an equal percentage of respondents expressed a lack of trust in online transactions, indicating that building customer confidence is essential for the adoption of online banking. The data further reveals that while most users feel somewhat competent in their technological skills, a substantial 73% believe that these skills limit their ability to use online banking effectively, suggesting a need for enhanced user education and support initiatives. Furthermore, with 91% of respondents acknowledging frequent technical disruptions and 82% expressing concerns about fraud and hacking, it is evident that these factors significantly hinder user confidence and satisfaction. Overall, addressing these challenges through improved

technology, user support, and robust security measures will be vital for enhancing the online banking experience and fostering greater trust among customers.

5.1 Recommendation

Based on the survey findings regarding the challenges faced by employees and customers at Abyssinia Bank's Wolkite branch in relation to online banking, the following four main recommendations can be made:

1. **Enhance Technical Infrastructure and Support**: Invest in upgrading the online banking platform to resolve technical issues such as login problems and system crashes. Establish a dedicated technical support team to provide prompt assistance to users experiencing difficulties, thereby minimizing disruptions and improving overall user experience.

2. **Implement Comprehensive User Education Programs**: Develop and offer training sessions, tutorials, and resources aimed at improving users' technological skills and confidence in using online banking services. Tailor these programs to address common challenges identified in the survey, ensuring that both employees and customers feel competent and empowered in their use of online banking.

3. **Strengthen Security Measures and Build Trust**: Enhance cybersecurity protocols to protect against fraud and hacking concerns. Communicate transparently with customers about security measures in place, and provide regular updates on safety practices to foster trust in online transactions.

4. **Establish a Feedback Loop for Continuous Improvement**: Create a structured feedback mechanism that allows users to report issues and suggest improvements regarding online banking services. Regularly analyze this feedback to identify trends, prioritize enhancements, and ensure that user needs are being met effectively.

By focusing on these key areas, Abyssinia Bank can significantly improve its online banking services, enhance user satisfaction, and build greater trust among its customers.

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APPENDIX I
WOLKITE UNIVERSITY

COLLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MANAGEMENT

Questionnaires

Dear Respondents!

My name is Abadir, I am student of Wolkite University, Management Department, this is a research project questionnaire to conduct a study entitled as "Challenges and Prospects of Online Banking System in Abyssinia Bank in Wolkite Branch". The question is designed to help me to gather appropriate data and I believed that you will kindly collaborate in filling the questions. The question may be open ended or close ended, so you are kindly request to put circle the appropriate answer.

PART- I. Demographic characteristics of respondents

1. Sex: Male ☐ Female ☐

2. Age Range: 18-25 Yrs ☐ 26-35 Years ☐ >35 Years ☐

3. Marital status: Single ☐ Married ☐ Divorced ☐ Widowed ☐

4. Educational level: High School ☐ Undergraduate Degree ☐

Postgraduate Degree ☐ TVET Certification ☐

Other: _____

5. Occupation: Student ☐ Employed ☐ Self-Employed ☐

Unemployed ☐ Retired ☐ Other: _____

6. How often do you use online banking services?

Daily ☐ Weekly ☐ Monthly ☐ **Rarely** ☐ **Never** ☐

PART- II. Usage And Experience of Online Banking

1. Which online banking services do you frequently use? Funds transfer

Bill payments **Account statements** **Mobile check deposit**

Loan applications **Investment transactions** **Others: _____**

2. How satisfied are you with your overall online banking experience?

Very satisfied **Satisfied** **Neutral**

Dissatisfied **Very dissatisfied**

3. Have you faced any challenges while using online banking? Yes **No**

4. If you say "Yes" on the Ques No.3, please mark which challenges you were faced?

Technical issues (e.g., login problems, system crashes)

Complexity of interface **Security concerns (e.g., hacking, fraud)**

Lack of trust in online transactions **Limited features**

Others: _____

Part -III. Challenges and Prospects of Online Banking

5. To what extent do you agree with the following statements?

Challenges of Online Banking	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Lack of technological skills limits my ability to use online banking effectively.					
Technical issues frequently disrupt my banking activities.					
Online banking services do not offer sufficient features for my needs.					

Concerns about fraud and hacking affect my confidence in online banking					

6. What are the main challenges you face with online banking? (Select top three)

Security risks ☐ **Lack of personalized support** ☐ **Technical difficulties** ☐

Limited accessibility or device compatibility ☐ **Regulatory or compliance issues** ☐

Others: _____

7. Prospects of Online Banking: In your opinion, what are the advantages of online banking? (Select all that apply)

Convenience and time-saving ☐ **24/7 access** ☐ **Ease of transaction** ☐

Cost-effective compared to branch visits ☐ **Access to a wide range of services** ☐

Other: _____

8. How do you see the future of online banking?

Highly promising with advanced features ☐ Neutral ☐ Unsure ☐

Promising but with challenges to overcome ☐ Limited growth prospects ☐

9. Which emerging technologies do you think will enhance online banking in the future? (Select all that apply)

Artificial Intelligence ☐ Chatbots and Virtual Assistants ☐ Blockchain ☐

Biometric Authentication ☐ Mobile Payment Solutions ☐

Others: _____

10. Security and Trust: How confident are you in the security measures implemented by your bank for online transactions? Very confident ☐ Confident ☐ Neutral ☐ Not Confident ☐ Not at all confident ☐

11. What security features do you value most? (Select top two)

Two-factor authentication ☐ Biometric login ☐ Encryption protocols ☐

Real-time fraud alerts ☐ Secure login notifications ☐

Others: _____

12. What improvements would you like to see in your bank's online banking system?

_____

_____

13. Any additional comments or suggestions regarding online banking challenges or prospects?

_____

_____

_____

APPENDIX II

INTERVIEWS

1. What measures you are taken to minimize those challenges?
2. What are the prospects that the bank gets from visa card?
3. What are the prospects get from mobile banking?

THANKS FOR YOUR COOPERATION!!!