

The Determinants and Outcomes of Internet Banking Adoption

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Abstract

This paper examines 1) the drivers of adoption of Internet banking 2) the impact of Internet banking adoption on product acquisition, service activity, profitability and loyalty, and 3) the linkages between adoption and outcome. We relate online banking adoption to customer demand for banking services, the availability of alternative channels, customers' efficiency in service coproduction ("customer efficiency"), and local Internet banking penetration. We find that customers who have greater transaction demand, higher efficiency, and reside in areas with a greater density of online banking adopters are faster to adopt online banking after controlling for time, regional, and individual characteristics. Following adoption, customers significantly increase their banking activity, acquire more products from the bank, and perform more transactions across channels. Consequently, in the short run, online banking adoption is not found to be associated with improved customer profitability. However, it is shown to be associated with stronger customer loyalty. Our exploration of the linkages between online

banking adoption and outcome also reveals that the factors influential on adoption in our framework (service demand, customer efficiency, alternative channel access and local penetration) are associated with differences in the post adoption customer profit and profit-related behavior changes.

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Keywords: Internet banking adoption, customer efficiency, local penetration effects