

# Strategic Online-Banking Adoption

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## Purpose of paper

Analyze the determinants of a bank's decision to adopt online banking. Particularly, the strategic considerations of this adoption in response to the adoption decisions of competitors.

# Facts about Internet-Banking Adoption

- Adoption takes time
  - First bank website appeared in 1995
  - 53% banks had a transactional website in 2003
  - By 2005, the adoption rate rose to 70%
- Adoption rate varied by geographic regions and by bank size
- Adoption followed branching deregulation of banks

## Previous Literature

- Previous research has studied the online-banking adoption in non-strategic environment
  - Epidemic effect
  - Rank, Stock, Order effects
  - Cross-market variations
- Previous research has not explicitly studied the strategic consideration of online-banking adoption

## This Paper

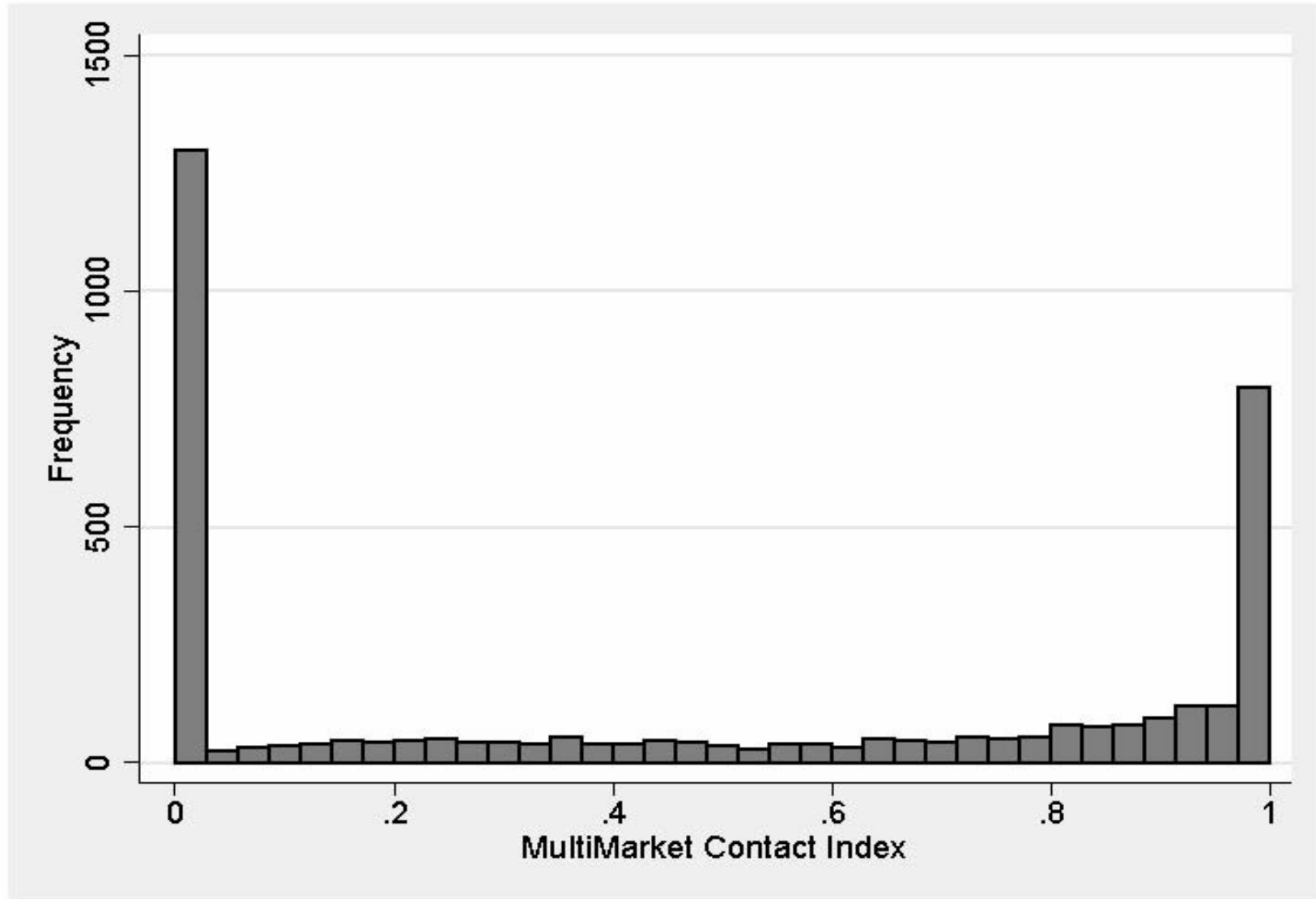
- Targets the strategic consideration of adoption
- Estimates a duration model of adoption using a panel banking dataset 2003-2005
- Introduces an original use of the measure, *Multimarket Contact (MMC)*, as a proxy for the strategic motivation
- Finds the MMC has a positive effect on adoption, always statistically and economically significant

## Some Issues

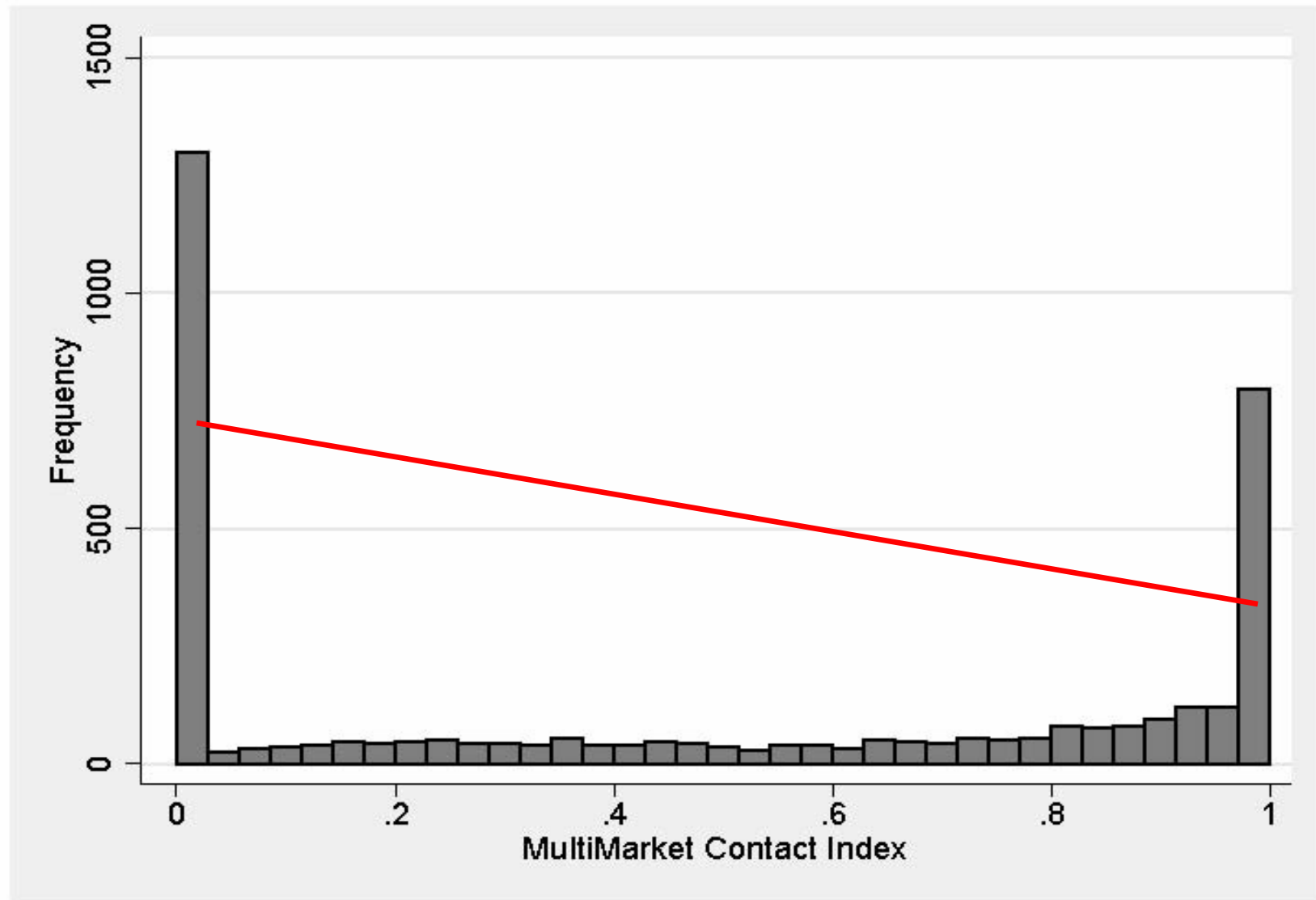
- What non-strategic effects may the MMC capture?
  - Epidemic effect
  - Endogeneity issue: Market fixed effect
- What strategic effects does the MMC capture?
- What does theory say?
- What does the data say?

## Frequency of Non-adopters vs. MMC in 2003:

### The Plot

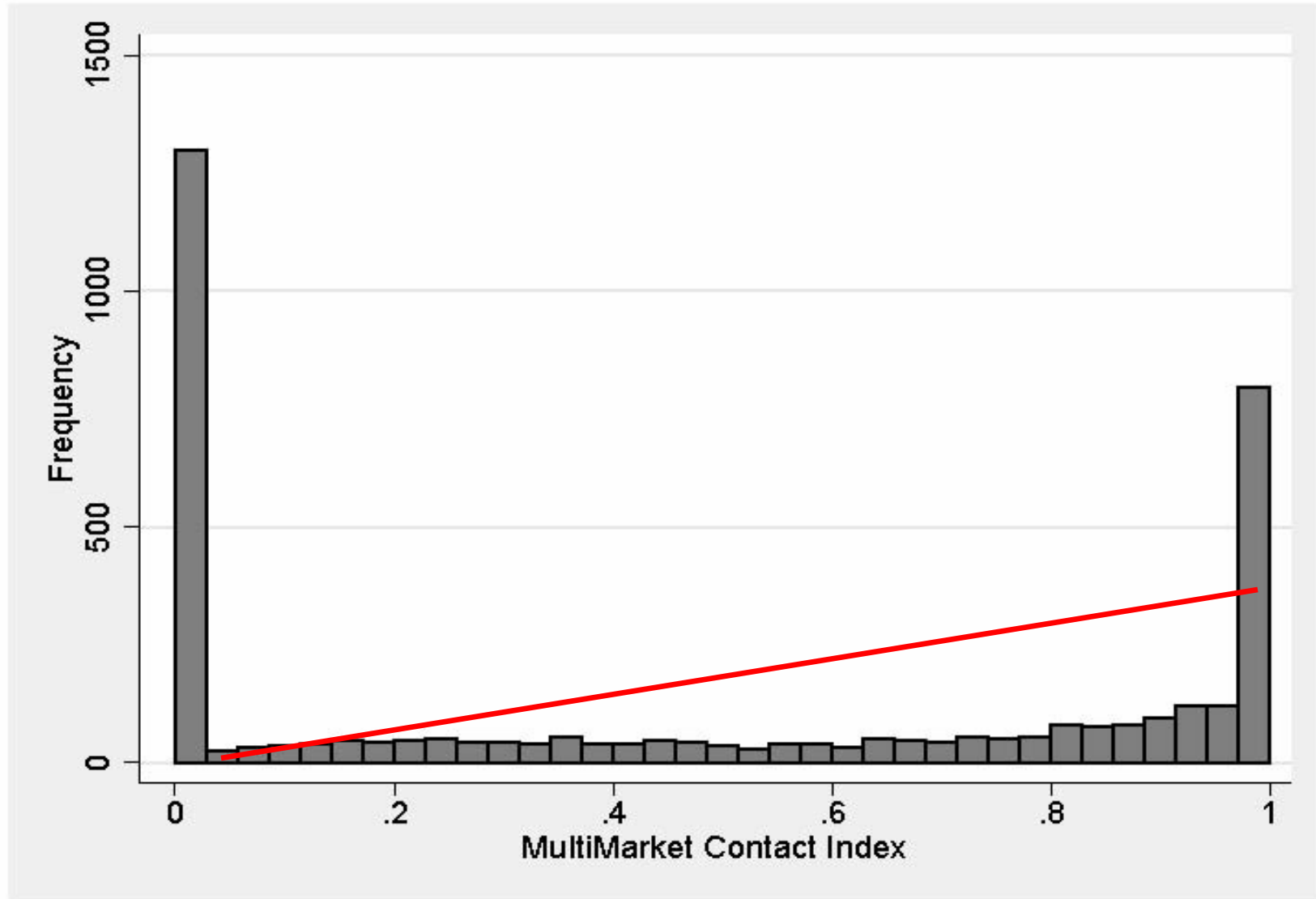


# Frequency of Non-adopters vs. MMC in 2003: The Regression





# Frequency of Non-adopters vs. MMC in 2003: An Alternative Regression



## Data Clarification

- Does the MMC have non-monotonic effects on adoption?
- Are the findings driven by the banks with  $MMC=0$ ?

*Suggestion:* May want to plot the frequency of adoption between 2003-2005 against the MMC.