Chapter 65
The Effect of E-Money on the Non-Financial Performance of Banks: Case Study – Bank Mellat of Iran

Mohsen Shafiei Nikabadi
Semnan University, Iran

Seyed Mahmoud Mousavi
Semnan University, Iran

ABSTRACT

This study is to explore the effect of the various aspects of e-money on the non-financial performance of banks. The population included all clients of Bank Mellat in the capital of Tehran, who use e-money services. A random sample of 404 of the clients was selected. Further, to collect data, the researchers developed a questionnaire with a Cronbach's Alpha of 0.891, which was validated by university lecturers and experts in banking and structural analysis. In order to analyze the problem and test the conceptual model of the study, factor analyses of first and second ranks, as well as path analysis were utilized. Throughout the research process, e-money was categorized into card-based and network-based types, and the non-financial performance of banks was measured in three indices of customer satisfaction, diversity of services offered by the banks, and the quality of those services. Findings suggest that e-money affects the non-financial performance of banks and its sub-factors, where the effect is more conspicuous on customer satisfaction and quality of services, compared to service diversity.

1. INTRODUCTION

Electronic banking and the adoption of its various tools is currently viewed as the most important field for banks to invest in. Banks have prepared a diversified, applicable and attractive set of services for their clients, such as various cards, telephone banking, internet banking, mobile banking, POS and ATM, whereby client eagerness has brought about higher quality services, hence banks more willing to invest

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in all those fields. For example, in 2011 alone, over 160 million debit cards were in use among bank clients (Nili, 2011). One form of electronic banking is e-money, which has, despite the importance people attach to cash notes in minor transactions, e-money and e-payment, gradually spread and revolutionized the processes and performances of traditional banking and finance. Until recently, cash has been the most common method of payment in traditional dealings in both developed and developing countries. Among the reasons making cash money more attractive in various countries are being untraceable, easy to use, and widely available, as well as there being little trust in government and bank authorities and also because of people inclination to evade tax payment. This is while cash notes entail problems such as print and maintenance expenses for paper notes and coins, counterfeiting, robbery, tax evading and money laundering (Baumol, 1952). Therefore, the emergence of e-money is considered a monetary revolution in today's economy and the high-brow generations of monetary economy. In fact, with the completion of the confidence-building process at both micro- and macro- economic levels toward the use of e-money, it will become further commonplace. The extensive spread of e-money, given its particular characteristics, will vastly affect other market and economic variables. One of the positive outcomes of using e-money is the increase in effectiveness of transactions.

This study aims at investigating banks' performance factors, as well as the degree of effect of electronic banking, and particularly, e-banking, on those factors. E-money comes in two major types, card-based and network-based. To embark on the research process, the factors comprising the non-financial performances of banks were categorized, and subsequently, the effect of e-money on the factor "non-financial performance of bank" was studied.

2. RESEARCH LITERATURE

In order to study the degree of effect that the new technology of e-money has on the non-financial performance of banks, firstly the measurable factors and indices in bank performances are dealt with, and further, e-money is defined and its current classifications are reviewed.

2.1. Non-Financial Performance of Banks

The banking industry is an important and outstanding of it type worldwide, and the rapid progress in computer and communication science has offered increasingly expanding applications to various sections of banks. In fact, banks are referred to as the propelling forces of economy, and are involved in intensive competitions to attract customers, their deposits, satisfaction and loyalty. All that effort will finally lead to improving the efficiency and improving the performance of banks, which will further elevate factors affecting bank effectiveness. Practically, banks are considered the most important bodies in the monetary market, and considering the reflection of their financial policies in the macro- economy of each country, it is of crucial importance to measure their performances and effectiveness, the latter requiring studies to identify the type of effectiveness, whereby both profit-making and public welfare entail. Measuring effectiveness and productivity is the most fundamental step in improving the two factors. Based on that, experts have tried to identify indices of bank performance. Ford and Olson (1978) categorize the factors affecting bank performance evaluation into interest rate, proportion of loans provided to the total deposits, staff salaries, performance costs and the ratio of income from loans provided, to the total amount