

Chapter 5.1

Factors Relating to the Adoption of Internet Technology by the Omani Banking Industry

Salim Al-Hajri

Higher College of Technology, Oman

Arthur Tatnall

Victoria University, Australia

ABSTRACT

The banking industry in Oman is of major importance to Oman's economy, yet Omani banks continue to conduct most of their transactions using traditional methods. A strong banking industry significantly supports economic development through efficient financial services, and their role in trying to achieve the objectives outlined by the Sultan of Oman will depend heavily on the industry's capabilities. Omani banks will need to introduce change at both procedural and informational levels that includes moving from traditional distribution channel banking to electronic channel banking. This chapter addresses the question: What are the enablers and the inhibitors of Internet technology adoption in the Omani banking industry compared with those in the Australian banking industry? The chapter does not attempt a direct comparison of the banking industries in these two very different countries, but rather presents a discussion of Internet technology adoption in Oman, informed by the more mature Australian experience.

INTRODUCTION

In developed countries such as Australia Internet technologies have been embraced by the banking industry and, for several years, banks have pursued strategies to encourage their clients to engage in Internet banking. In an article relating to on-line banking portals, Ayadi (2007) notes the diversity of competitive, technical and strategic challenges faced by banks on the Internet. In developing countries, financial institutions have been less inclined to adopt Internet technology and thereby capitalize on the benefits of simplicity, convenience and usefulness claimed to be associated with its implementation (Kurihara, Takaya, Harui, & Kamae, 2008). Oman is an example of a developing country committed to economic growth but with a banking industry that is yet to embrace Internet technology.

Traditionally, Oman has been heavily reliant on oil as its main income source. Fluctuations in world oil prices, however, can leave the country exposed to commodity price risk and during the 1990s Oman began to diversify its income sources. His Majesty,

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the Sultan of Oman, summarized his vision for Oman's economy as follows:

"The government has made major efforts in recent years to achieve comprehensive development in all fields. Now that it has succeeded, with the help of God, in moving the country from a traditional economy to a modern developed one, our future plan will be based on the balanced management of income and expenditure and the preservation of that balance so that Oman's present high prestige in the economic sphere, will be preserved. Therefore, the duty of the private sector in playing an active role in the development of economic process and in the achievement of national goals by taking appropriate initiatives, as is the case in all developed countries, is of great importance" (Qaboos bin Said's speech, June 2, 1995, reported in Oman Ministry of Development (1996)).

Since the development of the Omani banking industry in 1948 all banks have relied heavily on traditional distribution channels for banking services. However, in 1997 the Oman telecommunication company, Omantel, introduced Internet services to home and business users. According to the statistics provided by Omantel (2002) in their annual report, the number of Internet technology users had reached 12,348 in 1998 one year after of its introduction. By 2002 Omantel reported that the number of Internet users had reached 48,000, making up around 2% of the general population. Indeed, Internet technology infrastructure has grown steadily over the years but has only had a moderate effect on the Omani economy. The Omani banking industry has been very slow and cautious in moving from traditional distribution channel banking services to electronic distribution channel banking services (Al-Hajri, 2005).

Paradoxically, the growing number of users of Internet technology in the Omani economy has not yet motivated the Omani banking industry to adopt Internet technology the way the Australian banking industry has done. The Market Intelli-

gence Strategy Centre (MISC, 2002) reported that in 2002 there were six million Internet banking users in the Australian banking industry reinforcing the observation that Internet technology is far more developed in the Australia than in Oman. Other analysts (Wright & Ralston, 2002) expect Internet technology to grow substantially in the Australian banking industry which means that the Omani banks will be left lagging further behind global competitive markets.

In every country the banking industry is important, as a strong banking industry can have a significant affect in supporting economic development through efficient financial services. In Oman the role of the banking industry in trying to achieve the objectives outlined by the Sultan depends heavily on the industry's capabilities and banks need to introduce change, both at the procedural level and at the informational level. This change includes moving from traditional distribution channel banking to electronic distribution channel banking. Given the prevalence of Internet technology adoption by the banking industry in developed countries, reasons for the lack of such innovation in developing countries such as Oman are of considerable importance.

There are, of course, huge cultural differences between Oman and Australia and a direct comparison of the two is not the intent of this paper. The backgrounds, economics, societies and indeed the very way of life in the two countries are all very different. Australian banks have already largely adopted Internet technologies while Omani banks are just beginning to do so. The goal of this paper is to discuss adoption of Internet technology in the banking industry in Oman, with reference to the Australian experience in order to identify possible ways forward. This paper will thus address the question of determining inhibitors and enablers to the adoption of Internet technology in the banking industry in Oman, and inform the Oman experience by the more mature Australian experience.

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