ELECTRONIC-BANKING IN ETHIOPIA- PRACTICES, OPPORTUNITIES AND CHALLENGES

[1]Dr. Dakore B. V. and [2]Joshi T.M.

[1]Assistant Professor,Arts, Commerce and Science College,
Shankar Nagar Tq. Biloli Dist. Nanded.
[2]Research Student,Pansare Mahavidyalaya, Arjapur.

Abstract : The paper examines the practices, opportunities and challenges of E-banking services in Ethiopia. Ethiopian banking system is one of the most under developed compared to the rest of the world. In Ethiopia cash isstill the most dominant medium of exchange and electronic-banking is not well known, let alone used for transacting banking business. Allbanks in Ethiopia except Dashen Bank are too late to move with technological advancement and they should clearly chart out the time schedule for their integration and technological advancement.

Keywords: E-banking, Challenges of e-banking in Ethiopia.

INTRODUCTION

Information technology is considered as the key driver for the changes taking place around the world. Due to a pervasive and steadily growth of information and communication technology, the world banking industry is entering into new phenomena of unprecedented form of competition supported by modern information and communication infrastructure. E-commerce has become a buzzword for companies overa couple of years with increased awareness about the use of computers and internet.

The Internet is the driving force or the growth of e-commerce.The information and communication applications are paramount concern to the banks intoday's business environment and Internet has become the major platform for allfinancial, banking and commercial transactions in the present scenario. Statistics showthat Africa is lagging behind in the adoption of E-commerce. However, according to, there is some e-commerce activity in Africa, with South Africa, Egypt,Morocco and Tunisia taking the lead. Most rural areas in Africa, where the majority ofsmall and medium businesses areconcentrated, have no Internet facilities and thus areunable to engage in e-commerce activities. According to Jensen (2003),most countriesin Africa, except South Africa, have Internet infrastructure only in their major cities.'' The slow diffusion of e-commerce has been attributed to a number of issues some of which may be unique to the African continent. Recently, several African countries havealready made progress in their e-commerce links to integrate themselves with the global connectivity roadmap.Existing trading relationships and service provision within the financial sector are undergoing rapid change with the development of new financial software applications.

The rapidly growing information and communication technology is knocking the front-door of every organization in the world, where Ethiopian banks would never be exceptional. 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. Thus this study is conducted with the following objectives.
a)To describe and differentiate between different e-banking techniques
b)To conduct a survey on the existing operating style of banks in Ethiopia.
c)To analyze the status of electronic banking in Ethiopia

d)   To investigate the main challenges and opportunities for e-banking in Ethiopia.
e)   To recommend appropriate actions to be taken to promote e-banking in Ethiopia.

FEATURES AND BENEFITS OF E-PAYMENTS

All e-payment methods share a number of common characteristics. These are 'Independence, interoperability and portability, security, anonymity, divisibility, ease of use, and transaction fees. Independence refers to the ability of e-commerce methods to operate without installing specialized software. Interoperability and portability refers to the ability of forms of e-commerce to interlink with other enterprise applications and systems. Security is an important consideration that encompasses the safety of the transfer and the chance of the transfer being intercepted. E-cards offer a number of benefits to the issuing banks and customers of the bank including:
a) Dramatically reduce printing, mailing, and financial handling costs associated with processing transaction.
b) Enhance payment security by minimizing theft or loss.
c) Reduce undeliverable payments via electronic delivery to the card account.
d) Prevent fraud through automated controls
e) Increase customer satisfaction and enhance service to constituents.
f) Ensure continuity of service to cardholders in emergency or disaster situations
g) Improve operational efficiency and profitability of the issuing banks

REVIEW OF E-BANKING PRACTICE IN ETHIOPIAN COMMERCIAL BANKS

Certainly the banking industry in Ethiopia is underdeveloped and therefore there is an all immediate need to embark on capacity building arrangements and modernize the banking system by employing the state of the art technology being used anywhere in the world. With a growing number of import-export businesses, and increased international trades and international relations, the current banking system is short of providing efficient and dependable services and therefore all banks operating in Ethiopia should recognize the need for introducing electronic banking system to satisfy their customers and meet the requirements of rapidly expanding domestic and international trades, and increasing international banking services. Undeniably the largest state-owned bank, Commercial Bank of Ethiopia, introduced ATM service for local users in 2001 with its fleet of eight ATMs located in Addis Ababa Moreover;CBE has had Visa membership since November 14, 2005. However, due to lack of appropriate infrastructure it failed toreap the fruit of its membership. Despite, being the pioneer in introducing ATM based payment system and acquired Visa membership, CBE lagged behind Dashen Bank, which worked aggressively to maintain its lead in electronic payment systems.Dashen bank, a forerunner in introducing e-banking in Ethiopia, has installed ATMs at convenient locations for its own cardholders. The Dashen Bank ATM is available 24 hours a day, seven days a week and 365 days a year providing service to Dashen Debit Cardholders and International Visa Cardholderscoming to the country. At the end of June 2009, Dashen bank has installed more than 40 ATMs in its area branches, university compounds, shopping malls, restaurants and hotels. Available services on Dashen Bank ATMs are: Cash withdrawal, Balance Inquiry, Mini-statement, Fund transfer between accounts attached to a single card and PIN (Personal Identification Number) change Currently, the bank gives debit service only for Visa cards. Dashen bank clients can withdraw up to 3,000 birr in cash and can buy goods and services of up to 5,000 birr per day. Expanding its leadership, Dashen Bank has begun accepting MasterCard in addition to Visa credit cards it began serving over two years ago. Dashen won the membership license from MasterCard in 2008. Harnessing its leadership with advanced banking technology, Dashen Bank signed an agreement with iVery, a South African electronic payment technology company, for the introduction of mobile commerce in April 21, 2009. According to the agreement, iVeri Payment Technologies has licensed its Gateway and MiCard e-payment processing solution to Dashen Bank. This would make Dashen Bank the first bank in Ethiopia to acquire e-commerce and mobile merchant transactions. Although Dashen's new technology is one step ahead in that it allows transfer of funds from one's account to others, the younger United Bank was the first to introduce telephone and Internet banking systems - including text messages (SMS) - by the end of 2008 Wegagen Bank has signed an agreement with Technology Associates (TA), a Kenyan based IT firm, for the development of the solutions for the payment system and installation of a network of ATMs on December 30, 2008,The memorandum of understanding signed by three private commercial banks to launch an Automated Teller Machine (ATM) and Point of Sale terminal (POS) network, in February 2009 is welcoming strategy to improve electronic card payment system in Ethiopia.Three private commercial banks - Awash International Bank S.C., Nib International Bank S.C and United Bank S.C. – have agreed in principle to establish a ATM network called Fettan ATM network. If everything goes as planned, Fettan ATM will install over 140 ATM

machines and over 340 POSs across Ethiopia .There will be one ATM at every branch of the consortium banks, all domestic airports serviced by commercial service, shopping complexes and merchants. The agreement is the first significant cooperation between competing banks in Ethiopia, which others should be encouraged to follow as there is no single bank in Ethiopia that can afford to provide extensive geographical coverage and access (BinyamTamene, 2009). The first ever electronic banking gateway was signed between Ethiopian Commodity

Exchange (ECX), Dashen Bank CBE. The electronic banking system being developed with both banks is designed to give a secure electronic data sharing gateway between clients, banks and ECX, facilitating a smooth transaction (AbiyDemilew, 2008) As the CBE continues to move at a snail's pace in its turnkey solution for Card Based Payment System, Dashen Bank remains so far the sole player in the field of electronic banking since 2006. The agreements signed by other private banks to introduce e-banking are welcoming

PROSPECTRS FOR E-BANKING DEVELOPMENT

1) Opportunities offered by ICT through e-learning programs. The School Net program introduced in Ethiopia to connect more than 500 Schools creates opportunities to citizens tobe familiar with ICT applications and increases the awareness of the public (YayehyiradKitaw, 2006).

2) Late adopter opportunities- The commercial banks in Ethiopia should take advantage of already developed best and existing software applications.UNECA, World Bank andUNCTAD are helping developing countries to design national e-strategies, including e-commerce, via NationalInformation and Communication Infrastructure plans (UNCTAD (2004).

3) Commitment of the governments: The Ethiopian government considers ICT as an indispensable tool to alleviate poverty and facilitate a state-transformation aiming an effective and efficient service delivery. It has initiated commendable ICT policy frameworks and several E-Government projects, including theWoredaNET Project (ITU4D, 2006).

E-BANKING CHALLENGES IN ETHIOPIA

Banking in Ethiopia faces numerous challenges to fully adopt and adapt E-Banking applications and seize the opportunities presented by ICT applications in general. Key Challenges for E-Banking applications are:

1) Low level of internet penetration and poorly developed telecommunication infrastructure: Lack of infrastructure for telecommunications, Internet and online payments impede smooth development and improvements in e-commerce in Ethiopia. Most rural areas of the country, where the majority of small and medium businesses are concentrated, have no Internet facilities and thus are unable to engage in e-commerce activities.

2) Lack of suitable legal and regulatory framework for e-commerce and e-payment: Ethiopian current laws do not accommodate electronic contracts and signatures. Ethiopia has not yet enacted legislation that deals with e-commerce concerns including enforceability of the validity of electronic contracts, digital signatures and intellectual copyright and restrict the use of encryption technologies.

3) Inadequate banking system:

4) Political instabilities in neighbouring countries: Political and economic instabilities in Somalia, Southern Sudan, and Eritrea are threatening traits that do not provide a very conducive environment for e-banking in Ethiopia. Political instabilities inevitably disturb smooth operations of business and free flow of goods and services

5) High rates of illiteracy: Low literacy rate is a serious impediment for the adoption of E-Banking in Ethiopia as it hinders the accessibility of banking services. For citizens to fully enjoy the benefits of E-Banking, they should not only know how to read and write but also possess basic ICT literacy.

6) High cost of Internet: The cost of Internet access relativeto per capita income is a critical factor. Compared to the developed countries, there are higher costs of entry into the e-commerce market in Ethiopia. These include high start-up investment costs, high costs of computers and telecommunication and licensing requirements

7) Absence of financial networks that links different banks (Banks are not yet automated): Most of the banking-transactions currently taking place use credit and debit cards supplied by Visa and MasterCard. For conducting e-banking, the use of credit or debit cardsis mandatory thus requiring the need for specialized systems which are not currently available.

8) Frequent power interruption: Lack of reliable power supply is a key challenge for smoothly running e-

banking in Ethiopia.

9) Resistance to changes in technology among customers and staff due to: Lack of awareness on the benefits of new technologies,

a) Fear of risk,

b) Lack of trained personnel in key organizations,

c) Tendency to be content with the existing structures,

d) People may be resistant to new payment mechanisms

Cyber security issues: Cyber security isa global challenge that requires global and multi-dimensional response with respect to policy, socio-economic, legal and technological aspects. E-banking applications represent a security challenge as they highly depend on critical ICT systems that create vulnerabilities in financial institutions, businesses and potentially harm banking customers. It is imperative for banks to understand and address security concerns in order to leverage the potentials of ICTs in delivering E-banking applications. In the deployment of E-banking application, attention should be drawn to the prevention of cyber crime (i.e. the use of ICTs by individuals to commit fraud and other crimes against banking transactions) (ITU4D, 2006).

CONCLUSION

Certainly the banking industry in Ethiopia is underdeveloped and therefore there is an all immediate need to embark on capacity building arrangements and modernize the banking system by employing the state of the art technology being used anywhere in the world. With a growing number of import-export businesses, and increased international trades and international relations, the current banking system is short of providing efficient and dependable services and therefore all banks operating in Ethiopia should recognize the need for introducing electronic banking system to satisfy their customers and meet the requirements of rapidly expanding domestic and international trades, and increasing international banking services.low level of internet penetration and poorly developed telecommunication infrastructure, lack of suitable legal and regulatory framework for e-commerce and e-payment, high rates of illiteracy, high cost of Internet, absence of financial networks that links different banks, lack of reliable power supply, and Cyber security issues are the most important Challenges for development of e-banking in Ethiopia.

Therefore the following are recommended to strengthen the e-banking system in Ethiopia: develop a comprehensive regulatory and legal framework for e-commerce and payment, raise public awareness on the use of ICT, e-commerce, and e-Payment, provide incentives for financial institutions to invest rigorously on ICT and use of e-commerce, and e-Payment, encourage the current efforts to develop and expand ICT infrastructure

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