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.