

E-Banking and its features - Albania as a special case

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Abstract

The e-banking system is a system which enables customers of financial institutions to perform financial transactions such as: balance enquiries, account transfers, billpayments and some of them offer even the possibility to make loan or credit card applications on a website operated by the institution via internet at any place or time.

The e-banking is referred to as online banking or internet banking. The banks have chosen to be part of the wide world of Web in order to stay competitive in the fast changing world of business and also to take further advantages. This innovation (accompanied by globalization and technology development) has "obliged" the business entities to redefine and remodel their operations.

Electronic banking is the wave of the future. It provides enormous benefits to consumers in terms of the ease and cost of transactions. But it also poses new challenges for country authorities in regulating and supervising the financial system and in designing and implementing macroeconomic policy.

In the first section there is an overview of E-banking products and services offered world wide and in Albania as a special case. In the second section there is a general overview of the e-banking advantages and disadvantages. In the third part there is a discussion about the features, challenges, advantages and disadvantages of E-Banking vs traditional banking. In the last part there are given some general recommendations to be taken in consideration in order to maintain effective and to further develop the operating environment for the existing and potential e-banks.

Keywords: E-banking, Economy, Evolution, Transactions, Albania.

Introduction

The history of online banking starts in the early 1980s in U.S and UK but it started to get its popularity in the late 1980s and had a very different meaning than it does have nowadays. The term online banking referred to the use of a terminal, keyboard and television or computer monitor to access one's bank account using landline telephone. In 1981 New York City became the first place in the U.S to test this innovative way of doing business (four of the major banks adopted it: Citibank, Chase Manhattan, Chemical and Manufacturers Hanover) but however customers were sceptic about this new way of doing business so it firstly failed but gained attention again in the mid-1990-s. Customers were hesitant to use e-banking because many didn't trust its security features, were unsure how to use it. At the 1990s banks used the web as a way of promoting its service, without interaction with the customer. Their web pages provided only information such as images of their building or maps of branches and ATM locations, phone numbers to call for further information and simple listings of products.

Wells Fargo was the first bank to start the interactive banking services on the Web in

1995. After that “Presidential” became the first bank in US that offered the opportunity to open bank accounts over the internet. In 2000 nearly 80% of the banks in America offered online banking service and with the spread of e-commerce a new era for e-banking started. In 2001, Bank of America made history as the first financial institution that gained more than 3 million online banking customers which meant 20 % of its customer’s base.

According to research by Online Banking Report at the beginning of 2004, nearly 33 million U.S. households (31% of the market) were using online banking. Five years later, 47% of Americans used online, according to a survey by Gartner Group. Meanwhile, in the UK e-banking grew its reach from 63% to 70% of internet users between 2011 and 2012. Globally, 423.5 million people accessed online banking sites during April 2012, reaching 28.7 % of the internet audience. In North America, 45 % of internet audiences accessed banking sites. Online banking started in the form of automatic teller machines and telephone transactions but recently, it has been transformed by the Internet, into a new delivery channel for banking services that benefits both customers and banks. Access is fast, convenient, and available around the clock, whatever the customer’s location. This can provide services more efficiently and at substantially lower costs.

E-banking products and services offered world wide and in Albania as a special case

The financial sector in Albania is mainly bank oriented. For this reason banks remain the main financial intermediary as they represent over 90 % of total financial system assets. The sector is dominated by the five largest banks which hold about three-quarters of system assets and deposits. The assets are mainly financed by households’ deposits and three quarters of the value of all loans consist in lending for the corporate sector. Albania afforded the 2008 global crises relatively well but the global macroeconomic and financial environment uncertainty has had its effects. For example even though the subsidiaries of Greek Banks in Albania are licensed and operate as independent banks the Greek crisis had a psychological effect on customers of these banks in Albania leading to withdrawal of deposits for a certain period of time. Even though the deposits remained within the system by being transferred in other banks, Greek bank subsidiaries were put in certain difficulties. The banks are also vulnerable due to increasing NPL but despite of this banking system is still sound, with an overall capital adequacy ratio of 16.8 % as per December 2014. The banking is profitable, as the return on assets at the end of the same period recorded a positive result of 0.89 %, while the return on equity reached 10.5 %. One of the most important issues for the economy is the “Reduction of informal economy” and at this point banking system and especially e-banking can play a great role. E -banking is still not fully consolidated in the Albanian market but there have been great improvements regarding the infrastructure, security, diversity and quality of products and services provided. The banking infrastructure is modern and effective with 527 bank units and branches and 811 ATM and 6540 point of sales. E banking is also getting a great usage with 63 % more than 2013.

The activities you can perform through e-banking in Albania are more or less as following:

- Check the transactions of the account;
- Print the statement of the account and the transactions performed in it;
- Perform the transfers from the current account to the savings account and vice versa;
- Perform transfers within and out of the bank, in local or foreign currency, within the Albanian territory;
- Perform transfers abroad – only through your computer;
- Perform transfers and receive Swift message;
- Payments of the utility bills – only through your computer;
- Payments of Tax Office, Custom and Social Insurance – only through your computer;
- Payments of salaries in batch – only for business clients with more than one approval level;
- Check the list of loans and their actual outstanding;
- Request for debit card opening – only through your computer;
- Request a term depositor optimal deposit opening–only through your computer, from current account and saving account.

In order to make this services possible it is necessary the existence of the proper infrastructure and clients skills in internet and technology usage. The latest statistics show that actually more than 60 % of Albanian population has access to internet which makes proper conditions for e-banking.

Statistics on population and internet users in Albania:

2006	75,000	3,087,159	2.4 %	ITU
2007	471,200	3,087,159	15.3 %	ITU
2008	580,000	3,619,778	16.0 %	GfK
2009	750,000	3,639,453	20.6 %	ITU
2010	1,300,000	2,986,952	43.5 %	ITU
2012	1,441,928	3,011,405	48.1 %	ITU
2013	1,815,145	3,020,209	60.1 %	ITU

Regarding the transactions performed through debit or credit cards in Albania banks are investing in creating the proper infrastructure in order to support the online banking as much as possible.

Banking system data vs Jun'14	Jun-14	Jun-15	Jun'15
No. of outlets (June 2015)	536	516	(20)
Card with a cash function*(June 2015)	876,557	891,118	14,561
Card with payment function*(June 2015)	876,557	866,587	(9,970)
- Debit	806,773	788,305	(18,468)
- Credit	69,881	78,282	8,401

No. of ATMs (June 2015)	825	806	(19)
No. of POS (June 2015)	6,073	6,577	504
No. of Transactions with Cards	1,142,359	1,185,155	42,796
Volume of Transactions with cards (mil ALL)	11,533	18,098	6,565
No. of Online Transactions	112,835	130,404	17,569
Volume of Online Transactions (mil ALL)	13,196	22,621	9,425

* *Valid % active cards only. Source: Bank of Albania*

Regarding to BoA statistical data as shown in the chart above we can analyze that although there has been a decrease with 19 units referring to ATM –s in June'15 compared with the same period in 2014 there has been a decrease in the number of POS. Even though the number of cards with payment function has decreased the number of transactions performed by cards or online has increased in significant numbers. By this we can conclude that e-banking system in Albania is performing effectively. Also referring to the above mentioned e-banking services in Albania we can conclude that the system offers an extensive range of services which makes it convenient for the users although there is still space for improvements both in variety of services and in infrastructure in order to motivate the non-users of e-banking to involve in the system.

Advantages and disadvantages that accompany the e-banking usage

Online banking has taken on a great importance and one of the main reasons is that it offers the possibility to use banking services in real time 24/7. Through this every banking customer has no need to be physically present in the bank or to get information about his bank statement because he can download it within a minute.

E-banking offers its users the possibility to:

- Access his account at any place at any time ;
- Transfer funds from one account to the other;
- Online invoice payment;
- Download information about his/her accounts through personal financial programs.

E-banking offers advantages not only for the customer but also for the bank and the economy as a whole. The main advantage of customers (individuals or corporate) from e-banking are as following:

Account assessing and bank services cost reduction.

Clients can access information, make transfers, cash withdrawals or reschedule future payments by avoiding traditional e-banking services costs.

- **Convenience.** Online banking makes it possible to make transaction 24 hours at any place with no need of physical presence and as a result with no need of transportation expenses. This makes banking faster, easier, more efficient and even more effective because consumers are able to always stay on top of their account balances.
- **Fast and continual information access.** This has a great importance for both corporate and individual customers because they can access information for all their accounts and transactions at the same time and can proceed using this

information for their financial analysis and reports or for further future decisions.

- **Better Cash management.** The electronic performance of the transactions increases the speed of the cash flow through the existence of the instruments that make possible its better management. For example: E banking makes it easier to manage the short term funds of a company through: overnight investments, securities or money market operations. Through online banking customers can make a consolidated interface and can easily manage their debit or credit accounts, loans, their investment portfolio or other financial assets.

Regarding the banking sector the profits are both monetary and non monetary. The non monetary advantage deals with the fact that the implementation of e-banking technology has highly improved the image of the sector by increasing the efficiency of the system. By the monetary point of view it has reduced the costs per service making it possible to take advantage from the scale economy. Another reason that makes e-banking cost-effective is the fact that thousands or more customers are served at the same time without a need to expand the number of the customer service staff which leads to other cost reductions (printing, paper etc). All this has a great impact on marginal gain growth.

The disadvantages of e-banking

Some customers nowadays hesitate using online banking because they doubt the safety of doing transactions through internet. Their statement is explained somehow by the potential disadvantages that come with online banking:

- § **Indirect cost.** Accessing e-banking services asks good knowledge and access to a PC and also internet connection which means additional costs for the customer.
- § **The lack of cash availability.** Customers can not make physical cash deposits when using online banking.
- § **Transaction problems** – face to face meeting is better in handling complex transactions and problems. Customary banks may call for meetings and seek expert advice to solve issues.
- § **The risk of security breach** - Security is by far one of the biggest concerns dealing with e-banking, worrying that hackers will get into their account and spend their money. The access of unauthorized persons in the system is a concern for both banks and their clients.

E-Banking or Traditional Banking?

The question that naturally arises to every banking client is whether they should invest (deposit) my money in the traditional way by appearing physically in the bank counters or using online banking.

Now a day “time” has picked up a greater value for both individuals and businesses and for certain in this point of view e-banking has much more precedence.

Alike traditional banks, online banks are secured at Deposits Insurance Agencies so at this point of view customers funds are equally secured by both systems. Apart this each system has its own advantages and disadvantages.

The advantages of Traditional Banking vs E-Banking

- The main advantage is the speed of accessing the funds;

- Direct communication with a bank manager, teller or special accounts representative;
- Clients have much more security because the funds they have deposited are certified by a hard copy document which is signed by the assigned bank staff;
- Another security factor provided by the existence of surveillance cameras and the presence of security persons at the bank.

The advantages of E-Banking vs. Traditional Banking

Online Banking operates the same way as traditional banking with the exemption that it offers to its clients the possibility to: access information about their accounts, to make payments or reconcile movements performed in the accounts at any given moment of time with no need to be physically present at the Bank Wicket. All this is possible through the mediation of internet. According to studies e-banking is becoming more and more popular due to the advantages it offers :

- Possibility to access all its service at any place and any given moment of time and all is needed is a mobile or a PC and internet connection;
- Clients are served with no need to wait in que;
- It is an efficient system which gives the possibility to: pay bills, reconcile accounts, get the outstanding balance, pay bills, make transfers ect;
- Reduced costs: No need to spend money for transportation to Bank Units and no need to pay commisions for account statement or other informations which are provided due to some commisions in the traditional way of banking;
- Customers get notified through email alerts or sms if there is any unauthorized activity on any their your accounts in order to protect the the safety of their money.

Let's turn back to the question: **Traditional or E-Banking?**

According to **Statista** (statistical Portal) study for Online banking penetration in a

Online banking penetration in selected European markets in 2014			
Country	% of Population accessing e-banking	Country	% of Population accessing e-banking
Iceland	91%	Ireland	48%
Norway	89%	Czech Republic	46%
Finland	86%	Malta	45%
Denmark	84%	Euro Area	45%
Netherlands	83%	Slovakia	41%
Sweeden	82%	Spain	37%
Estonia	77%	Poland	33%
Luxembourg	67%	Slovenia	32%
Belgium	61%	Hungary	30%
France	58%	Italy	26%
United Kingdom	57%	Cyprus	24%
Lithuania	54%	Greece	13%
Germany	49%	Bulgaria	5%
Austria	48%	Romania	4%
European Union (28 countries)		44%	

selected number of European countries for 2014 it was found that 91 % of the Icelandic population access online banking sites, making Iceland the country with the strongest internet banking penetration in Europe. While there are countries like Romania with an overall online banking usage by only 4% of the population. In 28 EU Countries, online banking is used by only 44 % of the population which means that traditional banking is still the most favorite way of performing banking transactions in Europe. In the past decade, technology has completely transformed banking. Over the next decade, it will continue to do so. **After all this we may come to the conclusion that even though e-banking is being used more and more by people traditional e-banking is still necessary because personal contact with a specialized banking specialist is still necessary for the decision making process for the customers.** Both e-banking and traditional banking complete each other.

Conclusions and Recommendations

E-banking and the last generation of electronic transactions has opened a new window of possibilities for the banking and financial sector. It is experiencing a great growth especially in developed countries.

Initial costs of e-banking are not so high and new entrants with innovative ideas and strategies can definitively have a place in the sector. Apart from that there are some recommendations that should be taken in consideration by both existing and new entrants. Some of them are as following:

- Access in internet is a key element for e-banking. A study made by OECD has shown that there is a strong correlation between internet and e-banking usage. Even though growth of internet users does not guarantee e-banking usage companies can still take advantage by this by motivating internet users to use e-banking by offering cost subventions, free trainings on e-banking usage or by offering access facilities for users and potential users.
- Traditional model mixed with online banking has resulted to be more attractive than only online banking model. All the models that have tried to create an online banking based only in internet have still not resulted successful. For this reason it is much more effective for the banks to exist first physically and e-banking to be as one of the offered services. This will give customers more security and more reasons of trust in online banking. Furthermore analyses has shown that corporate clients worldwide are much more attracted by the mentioned model(Physical banking+ online banking) for this reason disappearance of traditional banking might cause a possible loss of corporate clients portfolio.
- Governments have an important role in creating the suitable environment but without intervening in their operations because this can lead to weak results.
- The last but not the least is that online banks should try to reach the critical mass as a key indicator for success. This can be reached through great internet usage and when the banks are capable of offering services for which there is an inclusive request.
- Online-banking needs to be promoted as the future of the banking sector and apart of the modern marketing campaigns the power of person to person

communication in information transmitting should never be under evaluated. Satisfied users are the best PR and “traders” for the services.

- Regarding risk management there should be a specified strategy approved and led by the governing board by taking in consideration all the effects of e-banking in the banking business and there should be also an affective strategy of controlling the risks that derives from it.

Banks should maintain a proactive attitude for aspects regarding : information security and personel training. The growth of the importance and usage of internet in performing different transactions asks businessess to be able to manage the risks that accompain it. Some of this risks can be managed through existing monitoring ways but there is another factor that should be taken in consideration : “ technology evolution”.

The changes on the outside environment of e-banking including globalization have grown the competition in this sector. It is becoming much more difficult for the banks to compete through prices for this reason they are always researching for new innovative ways of attracting customers whose request are growing and are becoming more and more sophisticated.

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