MODERN SOLUTIONS FOR THE BANKING DISTRIBUTION CHANNELS: E-BANKING – STRATEGY, COST AND BENEFICTS

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Abstract: The banking industry is expected to be a leading player in e-business. Banks have established an Internet presence with various objectives. Most of them are using the Internet as a new distribution channel. Financial services, with the use of Internet, may be offered in an equivalent quantity with lower costs to the more potential customers. In the Romanian case, there have been identified some specific issues that restrain e-banking adoption: penetration and skills (PC, Internet), attitude towards technology, security and privacy concerns; trust in banking institutions, banking culture, e-banking culture, Internet banking.

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1. Introduction

Banks have established an Internet presence with various objectives. Most of them are using the Internet as a new distribution channel. Financial services, with the use of Internet, may be offered in an equivalent quantity with lower costs to the more potential customers. This means that banks may enlarge their market without opening new branches. The banks in the US are using the Web to reach opportunities in three different categories: to market information, to deliver banking products and services and to improve customer relationship. In Asia, the major factor restricting growth of e-banking is security, in spite of several countries being well connected via Internet. Still, majority of banks in Asia is offering only basic services compared with those of the developed countries. Still, e-banking seems to have a future in Asia. E-banking will succeed if the basic features, especially bill of payment, are handled well. The banks have already started focusing on increasing and improving the e-banking services. As a part of this, the banks have begun to collaborate with various utility companies to enable the customers to perform various functions on-line.

In Europe, the Internet is accelerating the reconfiguration of the banking industry into three separate businesses: production, distribution and advice. This reconfiguration is further driven by the Internet, due to the combined impact of: 1. The emergence of new, more focused business models, 2. New technological capabilities that reduce banking relationship and transaction costs, 3. High-degree of uncertainty over the impact that new entrants will have on current business models. Though e-banking in the Europe is still in the evolutionary stage, it is very clear that it is having a significant impact on traditional banking activities. Unlike the US, though large banks in the Europe have a competitive edge due to their ability to invest in new technologies, they are still not ready to embrace e-banking. Hence, medium-sized banks and start-ups have an important role to play on the e-banking front if they can take concrete measures quickly and effectively.

E-banking has unique characteristics that may increase an institution's overall risk profile and the level of risks associated with traditional financial services, particularly strategic, operational, legal, and reputation risks. These unique e-banking characteristics include:

- Speed of technological change,
- Changing customer expectations,
- Increased visibility of publicly accessible networks (e.g., the Internet),
- Less face-to-face interaction with financial institution customers,
- Need to integrate e-banking with the institution's legacy computer systems,
- Dependence on third parties for necessary technical expertise,
- Proliferation of threats and vulnerabilities in publicly accessible networks.

Management should review each of the processes discussed in this section to adapt and expand the institution's risk management practices as necessary to address the risks posed by e-banking activities.

2. E-banking strategy

Financial institution management should choose the level of e-banking services provided to various customer segments based on customer needs and the institution's risk assessment considerations. Institutions should reach this decision through a board-approved, e-banking strategy that considers factors such as customer demand, competition, expertise, implementation expense, maintenance costs, and capital support. Some institutions may choose not to provide e-banking services or to limit e-banking services to an informational website. Financial institutions should periodically re-evaluate this decision to ensure it remains appropriate for the institution's overall business strategy. Institutions may define success in many ways including growth in market share, expanding customer relationships, expense reduction, or new revenue generation. If the financial institution determines that a transactional website is appropriate, the next decision is the range of products and services to make available electronically to its customers. To deliver those products and services, the financial institution may have more than one website or multiple pages within a website for various business lines.

3. Cost-benefit analysis and risk assessment

Financial institutions should base any decision to implement e-banking products and services on a thorough analysis of the costs and benefits associated with such action. Some of the reasons institutions offer e-banking services include:

- Lower operating costs,
- Greater geographic diversification,
- Improved or sustained competitive position,
- Increased customer demand for services,
- New revenue opportunities.

The individuals conducting the cost-benefit analysis should clearly understand the risks associated with e-banking so that cost considerations fully incorporate appropriate risk mitigation controls. Without such expertise, the cost-benefit analysis will most likely underestimate the time and resources needed to properly oversee e-banking activities, particularly the level of technical expertise needed to provide competent oversight of in-house or outsourced activities. In addition to the obvious costs for personnel, hardware, software, and communications, the analysis should also consider:

- Changes to the institution's policies, procedures, and practices;
- The impact on processing controls for legacy systems;
- The appropriate networking architecture, security expertise, and software tools to maintain system availability and to protect and respond to unauthorized access attempts;
- The skilled staff necessary to support and market e-banking services during expanded hours and over a wider geographic area, including possible expanded market and cross-border activity;
- The additional expertise needed to oversee e-banking vendors or technology service providers;
- The higher level of legal audit expertise needed to support technology-dependent services;
- Monitoring e-banking security, usage, and profitability and to measure the success of the institution's e-banking strategy;
- Cost of insurance coverage for e-banking activities;
- Potential revenues under different pricing scenarios;
- Potential losses due to fraud;
- Opportunity costs associated with allocating capital to e-banking efforts.

4. Monitoring and accountability

Once an institution implements its e-banking strategy, the board and management should periodically evaluate the strategy's effectiveness. A key aspect of such an evaluation is the comparison of actual e-banking acceptance and performance to the institution's goals and expectations. Some items that the institution might use to monitor the success and cost effectiveness of its e-banking strategy include:

- Revenue generated,
- Website availability percentages,
- Customer service volumes,
- Number of customers actively using e-banking services,
- Percentage of accounts signed up for e-banking services,
- The number and cost per item of bill payments generated.

Without clearly defined and measurable goals, management will be unable to determine if e-banking services are meeting the customers' needs as well as the institution's growth and profitability expectations.

In evaluating the effectiveness of the institution's e-banking strategy, the board should also consider whether appropriate policies and procedures are in effect and whether risks are properly controlled. Unless the initial strategy establishes clear accountability for the development of policies and controls, the board will be unable to determine where and why breakdowns in the risk control process occurred.

5. Audit

An important component of monitoring is an appropriate independent audit function. Financial institutions offering e-banking products and services should expand their audit coverage commensurate with the increased complexity and risks inherent in e-banking activities. Financial institutions offering e-banking services should ensure the audit program expands to include:

- Scope and coverage, including the entire e-banking process as applicable (i.e., network configuration and security, interfaces to legacy systems, regulatory compliance, internal controls, and support activities performed by third-party providers);

- Personnel with sufficient technical expertise to evaluate security threats and controls in an open network (i.e., the Internet); and

- Independent individuals or companies conducting the audits without conflicting e-banking or network security roles.

6. Security measures

When financial institutions introduce e-banking or related support services, management must re-assess the impact to customer information under the existing regulations. It is necessary that financial institution to:

- Ensure the security and confidentiality of customer information;

- Protect against any anticipated threats or hazards to the security or integrity of such information;

- Protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer.

- There are outlined specific measures institutions should consider in implementing a security program. These measures include:

- Identifying and assessing the risks that may threaten consumer information;

- Developing a written plan containing policies and procedures to manage and control these risks;

- Implementing and testing the plan;

- Adjusting the plan on a continuing basis to account for changes in technology, the sensitivity of customer information, and internal or external threats to information security.

There are also outlined the responsibilities of management to oversee the protection of customer information including the security of customer information maintained or processed by service providers.

7. Key issues in Romania for internet banking

In Romania, a significant number (23) of banks are providing e-banking services, phone banking, electronic banking, internet banking, mobile banking. Still, the number of users is very small if we compare it with the ones in the developed countries. In Romania, at the end of 2004, only 44.538 clients were using the online services according to the Ministry of Communication and Technology, while in Western Europe the number of users reached 57,9 million in the same period, in the USA there were 22,8 million clients and in Japan there were 21,8 million clients. In Romania, the number is growing but in a very low rhythm.

In the Romanian case, there have been identified some specific issues for e-banking adoption:

- Access technology and infrastructure related factors: penetration and skills (PC, Internet), attitude towards technology, security and privacy concerns;
- Sector specific Internet banking factors: trust in banking institutions, banking culture, e-banking culture, Internet banking push;
- Other socio-economic factors: institutional trust, household income level, inflation rate, level of grey economy.

As far as the Romanian e-banking development is concerned, experts agree that many of the innovating solutions will develop in parallel while some others will be faster. Home-banking will lose ground for the internet banking, the last one allowing the users all over the world make transactions through a simple internet connection. Mobile banking can have a larger dynamic than internet-banking on private persons as many of them have invested in mobile communication. The IMM-s will also prefer the internet banking. The e-banking solutions brought by the foreign banks and rapidly embraced by the local ones must be used and developed in parallel so that to offer the clients a variety of solutions [Giurcă Vasilescu, 2005].

8. Conclusions

Thus, the nature of commerce will continue to change with the growing familiarity of the Internet and the World Wide Web. As one would expect, payment systems have been evolving to meet the changing needs of buyers and sellers. New payment instruments are being created to expand the reach of payment infrastructure that has been in place for decades; current systems are being reengineered at the fringe; and fundamentally, new payment systems are being developed as well.

Price level on the e-banking and e-commerce market is lower than prices on traditional banking market. Thus, it is natural to stress that the differential in the prices charged for some products and services on the Internet would be smaller than the price differentials on the conventional banking market. So, the information technology makes it more difficult for central banks to accurately understand price conditions, which is an important basis for making monetary policy decisions.

Central banks generally use short-term interest rates to influence borrowing costs – and thus the real economy. While the e-banking and e-commerce takes a stronger position, coupled with price flexibility, this will finally affect even the decision of monetary policy, meaning that the influence of the monetary policy on prices could even weaken.

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