

INNOVATION IS THE KEYWORD FOR THE BANKS HAPPY CUSTOMERS AND COMPETITIVE ADVANTAGE

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Abstract

The innovations in the technology in the financial sector are radically changing the way consumers' bank. New technologies are also changing the way this society works, governments, corporations and individuals make keep demanding, more changes will follow all the sectors. Following these technology changes there were a number of words being created and entered the everyday jargon of the people using IT systems and supplies. These words which have taken place in our vocabulary are not very old. Some of the words that can be mentioned are e-trade, e-mail, e-commerce, e-banking, e-Business. It all started in a very simple way when the computers were first introduced by supporting the normal workload in an office to do the automation of various processes in order to reduce the paperwork. With further development in the IT sector there were noticed the many opportunities offered by technology advancement. These innovations were also applied in the banking sector as a demand to keep up with the competition and customers demand given that the long term strategies are consumer oriented. In this new way, the customer is in the center of the bank and regularly pursued from the policies of customer relationship. There are two types of products push and pull. The push ones related to old traditional way of dealing in a business, with not much flexibility. Meanwhile the new type is the pull one, which is the opposite. The system is based on innovation which leads to more flexible and quicker processes. All the banks should rely on the latter their day-to-day business activities and processes. It doesn't only lead to a better and easier management but also to happier customers and better competition advantage.

Keywords:

Bank

An organization, usually a corporation, chartered by a state or federal government, which does most or all of the following: receives demand deposits and time deposits, honors instruments drawn on them, and pays interest on them; discounts notes, makes loans, and invests in securities; collects checks, drafts, and notes; certifies depositor's checks; and issues drafts and cashier's checks

Innovation

The creation of new products and/or services.

Cross-sell

The strategy of pushing new products to current customers based on their past purchases. Cross-selling is designed to widen the customer's reliance on the company and decrease the likelihood of the customer switching to a competitor

On line banking

A system allowing individuals to perform banking activities at home, via the internet. Some online banks are traditional banks which also offer online banking, while others are online only and have no physical presence

Technology

The complete set of knowledge about how to produce in an economy at a point in time, including techniques of production that are available but not economically viable.

Customer

A person, company, or other entity which buys goods and services produced by another person, company, or other entity

Introduction

When making bank transactions is necessary we always want to use those banks that are more flexible and quicker on the way they provide their services to fulfill our needs. There are times we are in a rush and we want prompt services from the bank, withdrawing cash and the bank is closed or even needing money when we do not have enough in our account. This sort of demands imposed the need on the banks to offer the electronic banking as an option to all the customers. In this way the customers will have access to their accounts 24/7 as the online transactions are made in real time.

ATMs or Automatic Teller Machine are computers that work like a bank counter. ATMs enable the customers to fulfill some of their needs without even going at the bank. Moreover, they are installed in many places and people can access them at any time. The main functions are withdrawing money, depositing money, transfer money from one account to another, paying bills or simply for checking the bank account. All these actions are performed only by using a plastic card given from the bank and by entering respective PIN code. Another electronic service is the one called the “Electronic transfer of funds” (POS / EFT). Using ETF, the bank transfers an amount of money to another bank by sending an electronic message. In this case, for transferring this amount of money, there is no need for the customer to fill a cheque.

On the cases when sending money from one account to the other an instruction is sent to a computer for deducting a certain amount of money from a bank account and sending it to another account. The message is sent and the relevant amount is transferred. There is no physical movement of the cash.

Internet banking - enables customers to complete financial transactions in a secure internet site managed by a virtual bank.

Mobile banking – it is used to perform controlling of account, transactions, payments and other banking transactions through a mobile devices or Personal Digital Assistant (PDA).

Phone banking – it is a service provided by financial institutions, which allows customers to perform transactions via mobile phone.

The above mentioned services are not yet available in Albania. There most common ones offered by the banks are limited to just issuing a chip and pin card to withdraw money at the ATMs and offering the online banking service. The lack of the variety of services offered combined with the common trend in Albania, encourages people to prefer to use cash instead of the credit/ debit card. Moreover, this is a trend that will continue to be used not only in our country but worldwide as the whole process cannot be replaced with electronic money.

The main aim of this study is to find a bank model that will succeed in a market where socio-economic and technological factors have led a revolution in how banks run. The physical and virtual electronic channels will also be analyzed in terms of the banks’ most significant cases. The difficulties encountered with this study are related to the lack of information on the area as well as the sources providing it, since the topic covered is fairly recent and in continuous update. The materials available are not updated as fast as the technology evolves and this is one of the downsides faced while working on this study. In order to balance this lack of the information, we have referred to researches done on behalf of the companies and institutions that have shown same market situation. These results are compared with published articles in relevant magazines, reports shown in several congresses where practical cases are presented as well our own experience in the banking system.

Innovation benefits

Innovation is more than just creating new products or services. Innovation is a whole process of transforming the new ideas into values in order to gain competitive advantage in the market.

There are several ways in which the innovation comes in the banking sector as listed below:

- **Products and services:** a product or service that is new to the market
- **Communication channels:** new ways to communicate with partners, customers or staff
- **New Brand Experiences:** new ways for customers, partners and staff to mediate in order to recognize the brand-in
- **New distribution channels:** innovative ways to bring the product or the service to the customer
- **New partnership strategies:** agreements between companies that have visible results in innovation, products and new synergies
- **New business models:** a new pricing structure, business model or approach to an existing business model
- **New client segments:** in order for the company to reach new segments of customers using the existing products or services
- **New processes:** new ways to reduce costs, to optimize the operational aspects, develop a better service for the customers

In order to recognize the importance of technological factors it is sufficient to see the increase of business investment in the new technologies.

Online banking

It is one of the newest and latest features implemented not long ago as a result of the customer needs and demands. It is merely a virtual bank offering almost all the services that a branch offers. The philosophy of on-going updates and changes is what drives today's bank changes and the integration of alternative channels.

The forces behind this innovation are the evolution of economic policies as well as the aim of having better profits. The change involves the alternative channels and the update of technology used. All this led to a change in the economic relations and the whole economic environment of the country itself. This is what is called the "new economy", involving a major change in the products and services of a bank including banks' own procedures.

The difference between the old economy and the new one lays in the way they collaborate with all the aspects of the micro economics. And this is exactly what the new economy does, by linking all the economic factors with the technology innovation in a completely different way, making things easier, closer and in a more efficient way. Cross-sell is a result of multi-channel activities helping banks to gain competitive advantage by increasing benefits and improving customers' experience. The implantation of the improved technology in distribution channels contributes to better operational services and reduces the maintenance needs of the system. The multi-channel structure although very efficient and beneficial for the banks is not very easy to be adopted. However all these difficulties associated with the implementation are compensated with the positive outcomes of the new technology that helps reduce bureaucracies and time.

The various banking types

E-banking has come as a result of the demand of the people to do their banking remotely without the need to go to a branch. This type of banking helps the banks to be up to date with the recent technology they offer to their clients, but also to minimize costs, increase profits and make banks to be more efficient.

Based on the technology used, banks are divided into 3 main categories.

1. **Bricks and mortar** - The only way of banking they offer to their clients is online banking. As the name states, the bank is virtual, therefore it does not have any office for their customers.

2. **Virtual banks** - This type of bank is the opposite of the first type. They have only brands and do not offer online banking services.

3. **Brick to click banks** – Are the most common type of banks nowadays; the traditional banks that have recently implemented the online services for their customers.

Internet banking banks types are as below:

1. Communication Bank website

This type of site allows the flow of information in two ways: first, users can get different information and secondly they are allowed to send a "feedback" by resubmitting the information. The risk is relatively low because there is not a direct connection to the server or the bank's internal network. They should be vigilant and continually check to monitor, prevent and manage unauthorized interference to access the server or the bank's internal network or computer systems; Viruses' control is vital and the safety of the system should be monitored.

2. Information banks or marketing website

This is a basic form of an e-banking bank; they are used only for marketing information about the bank, the products and the offered services; there is low risk due to a lack of a direct link to the bank server; provide information about loans and deposits interests; in extreme cases, provide a contact point on the line through which customers can send an e-mail asking for specific information, the purchase of a brochure, etc.; this service can be offered by the bank itself or can be "outsourced"; These sites should be under continuous and strict monitoring to prevent unauthorized changes.

3. Transactional website Banks

Meanwhile that communication banks include a bilateral flow of information, transfer of funds requires a site far more complex; Customers can make transactions with their accounts in real time; Customers may update or edit account information; Customers can pay their contacts; These banks are exposed to a higher risk and so they should pay attention to their systems.

The importance of virtual banks

When speaking of the virtual banks a question is raised in regards to their role in the financial arena. Technology is very important for a bank in terms of transmitting information and providing products and services. All these are closely and strongly related to the funding and profits of a bank. The main competencies of the banks are the creation of job opportunities, risk assessment and budget and planning as per the banks' objectives.

This power of the banks has been operating for a long time and has been one of the factors that have contributed to bigger obstacles in the entry. But when information was introduced the situation is altered. In fact, it is possible to enter more quickly in a large amount of information with a very convenient price.

Specialised magazines have quite a lot of information in regards to the matter. But even more is available in the World Wide Web. Information is not enough for budget planning. This information received needs to be processed in order to be used, in terms of what it means to a bank. A lot of information is not good at times as it overloads the whole process. It is as if there is none available. Therefore the information chosen should be carefully selected.

Consequently we can say that the information has a great importance for the banks and for the whole economic situation. It adds value to services and goods. Competitive advantage for companies is when they are able to control the information better than competitors. The main reason is because the bank is able to have a better picture of the value that the client assigns to the virtual banks than the competitors. One of the types of banks is *click only*. It stands for virtual banks. They are present in many ways. It means a bank without branches and agencies, without infrastructure and personnel. The real elements of operational processes are not present, i.e. paper or money. It stands for a kind of completely dematerialized bank which does not have any physical aspects. It means a bank that through hard work in

Information Communication Technology is able to separate the banking function from banking structures and to reproduce only the first one¹.

This form of banking has not been spread much and it is generally used by SIM financial companies which handle credit card management. It is also used by those new competitors coming from sectors other than financial but have extensive technological skills.

Another type is *click and brick* bank. These types of banks are a mix between tradition and technology. Traditional distribution channels e.g. counters are supported by the new ones, which are then used as additional distribution methods, not substitutes. It is a bank with infrastructure, structure, personnel and without a separation between function and banking structure. Rather it must be seen as the natural evolution of traditional banks.

We must stress the two features in the concept of virtual banks. The first feature is the fundamental role of Information Technology which permits to review the organizational content and to modify the manner of offering and fulfilling banking service by becoming the main factor of the new way of understanding the bank. The second feature is the central role of the channels and distribution function.

It is not possible for banks to be completely virtual ones. It involves a process of a gradual change which goes through intermediate stages for various reasons. One of the reasons is a lack of resources and technological capabilities for the change. Also, we should note that the market may not be ready to accept the change. The other reason is the rigidity in terms of labour laws which makes it difficult the reorganization of human resources.

This type of bank is not required to become a completely virtual bank. They have a property under the form of counters and agencies that need to be evaluated, for example by changing them into financial stores. They have the tendency to open their offices in strategic areas and provide services that at present may not be offered through virtual channels for technological or legislative restrictions or may be offered only by counting on a traditional bank².

Based on what stated above and the literature available it can be said that the click and brick banks should be considered alongside with the virtual ones because there are such structural elements that cannot be fully dematerialized. They should not be considered as an inferior class of the electronic banks. It can be said that the virtual banks do not have an exact form and definition beside the fact that they have some common key features such as and separation between banking structure and function, high levels of technology used, etc.

The main aims of a virtual bank are about fulfilling customers' expectations. It involves as below:

- The opportunity to access 24/7 - Every time
- The opportunity to access a huge range of products - Everything
- The possibility to enter the bank from any location - Everywhere
- The opportunity to access to services through the appropriate devices - Every way

The pros and cons of e-banking

The major part of commercial banks offers various forms of internet banking or online banking. The challenge of this industry is creating new channels for offering banking services in a simple and reliable way to be used by the customers.

Some banks see internet primarily as a channel of communication with their clients, others see e-banking as a way of building the external market (e.g. in whole EU) without having the need of investing in a "bricks and mortar" type of bank. Others see the online banking as an alternative channel of sale or services. Others think that all the above are complementary to each other. Some banks are concentrated in internet banking for customers and some others aim to provide a full service bank website for corporate customers.

¹ B. Dahlbom, (2010), *Dalla società dell'informazione a quella delle idee*.

² EFMA Studies, (2011), *Innovation in retail banking*.

Alternative channels fulfill many functions of the relationship between bank and customer. Besides the presentation and recognition of the banking institution and its initiatives and products, such channels offer other benefits as well. Amongst them we can mention the most important ones from sides, the bank and the customer.

From banks' point of view:

One of the banks' biggest challenges is ensuring that the same level of service and products offered to customers through e-banking is the same as the service given by traditional branches. It is the task of a bank to provide the same level of service to all the distribution channels in a consistent manner.

Less administration work - reduced stationery, consumables and paper costs.

Less control and reduced costs - customers are able to utilize these channels without the help of cash desks and bank's staff.

The downsides of this whole process are:

No personal interaction – customers communicate to the bank through alternative channels. In this way there is no personal contact with bank staff and no consultation option in regards to their finances.

Initial start-up time – the process initialises with the customer going to the nearest branch and registering for the service. In these cases both parties are bound by a legal agreement that is signed

The use of these channels at the beginning may seem complicated and difficult to use by the client, it will need some time to familiarise themselves with the new system provided.

Technical problems – they associate almost of the processes related to technology and not only in the banking sector

From the customers' point of view:

Effectiveness - banks provide advanced technology devices, management programs or alarms to help their customers administering all of its assets efficiently.

Convenience: Differently from bank's desk, these channels never close; they are open 24 hours a day, 7 days a week. It is convenient as there is not time to waste time waiting on a queue as the bank now is just a click away.

Everywhere – Instant connection of the customer with his bank when he is out of town or abroad. The bank can easily handle his accounts & finances.

Quicker transactions - online transactions are faster than the bank desk's transactions.

Efficiency - customers can manage all their accounts and transactions with only one click.

The future of e-banking

The development of alternative distribution channels has been one of the best developments of the banking system during the last ten years. According to the market studies conducted by the research companies, the most common services used by the customers were the internet and their mobiles. The research was based in developed markets such as France, Italy, Spain and United Kingdom. The study shows that the e-banking usage will continue to increase. This growth will be encouraged even more by the use of digital equipment from new generations.

Another research (McKinsey) shows that the main obstacles when using internet banking are a lack of network compatibility for making the cash transactions and a lack of a face to face contact with a bank operator. The customers have often questioned the safety and risks when doing online banking. The traditional way of banking by going to a cash desk still attracts many people. Some feel safer and more comfortable as a result of the old habits that are hard to change. However the e-banking service is growing faster and it will continue to grow even more in the future. With the functionalities extended there will be even more demand for this type of banking service.

Conclusions

As already discussed in this study the technology has a vital role in many of the services that a bank offers. There is a strong connection between technology and banking sector. There is With the pace that the new technologies are evolving and are reflected in the financial field, it not possible to say which model is the best one.

We have experienced the transition from the radical concept of virtual bank, a bank totally dematerialized, which operated only in the network to a more moderate concept of virtual channels which cover a significant role. In fact, it is true that credit institutions can't function alone in terms of work and number of counters, but they need to strengthen their distribution activities through electronic channels where the main goal is to fulfill customer requirements. In a delicate matter such as financial ones, the customers are not yet ready to use only virtual channels and the personal contact remains still a very important role.

Through this study we want to stress out the idea that the winning model for banks is more diverse in the integrated channels, including physical and virtual channels coordinated amongst themselves and not virtually. Virtual means are often associated by increased costs and clients are not ready for such a change. The financial market has been in constant change with the options offered and the stagnation slows down and affects the online activity of the customers. This negative performance also affects the cost/income ratio of virtual channels and delays in reaching the "break - even" point. When the process of adjusting comes to an end there be convergence between virtual and physical, the new economy and the old one, where the structure of credit institutions will certainly be more sophisticated and bendable compared to the actual one.

Based on the previous researches, this study does not fully support the above statements as the banking sector is still going through a complete transformation stage and it is impossible to do forecast in long – terms. Furthermore the technology cannot yet be chosen which will be the best one. It is not advisable to turn fully support only one channel even if it comes to the Internet. We must also keep in mind the fact that the World Wide Web in Europe is now spread so widely that it is able to replace the other distribution channels. Therefore the banks must provide the prospect to choose how to grasp them. After that, it will be the client that will choose one channel over the other. It is difficult to think that it will only be one winning channel, this is due to the fact that people are different and have different expectations and demands. These factors will affect their choices.

As mentioned in this study the traditional bank unlike a multi-channel bank can barely have a bigger market share due to the fact that it is not able to pay all depositors, but only those who we might consider as innovators. Following the stages of life cycle of a technology (entry, consolidation, maturity, decline), we should remember that all virtual channels are still in the early start - up. A quick look banks types and services, gives us an overview of the diversity of this system.

After a slow start, we can say that the online banking has entered the development stage. This development derived from the rapid spread of internet, the increase of the number products it offers, and IT equipment reduced costs. However, there are various thoughts when considering its future. Some people thought that the offering of such service would be followed by the elimination or minimization of the use of traditional channels for obtaining banking services, heading towards fully virtual banks. But soon, it was realized that such a hypothesis was too optimistic and that the role of traditional channels was underestimated.

Online banking has surely revolutionized banking system, by 'creating' a bank branch in everyone's home and is meant to be evolving even more. However, the experience of the recent years shows that online banking services will have an supplementary role of the traditional ones even in future. In the future it is likely that the banks' websites will be used the same as counters and ATM-s. All these will continue to be part of a multi-channel model as optimal strategies to ensure their customers more flexibility, practicality and convenience.

The most chosen model seems to be the American model called "*click and mortar*" which encourages customers to use internet banking for basic transactions, leaving more time to bank staff for services such as financial planning and advices.

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