

## Online Banking in Albania

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### Abstract

*In nowadays society, in the globalized economy, the new economy also called internet-economy has become one of the major issues of economic and technical literature. The spread of information and communications technologies, the increased use PCs, facilitating internet connectivity, as well as a wide spreading of mobile phones, have drawn attention of banks towards internet banking. Main reason that made profitable use of this channel was the need to minimize costs and to increase efficiency of banking services and at the same time to achieve customer satisfaction. Internet banking was firstly introduced in the 80s, but only in the mid-90s it was widely spread and since then, it has advanced a lot. Over the past decade, e-banking transactions have grown dramatically. E-banking in Albania was firstly used in 2002 only by American Bank of Albania (now ISP Bank). Years after there have been efforts by other banks and now the number of banks using online banking in Albania has increased. Therefore, the internet-economy, with the use of IT systems constitutes a new paradigm of business and development.*

**Keywords:** Information Systems, Online Banking, Electronic commerce

### INTRODUCTION

The banking system has a very important role in the development of a country's economy. For this reason it has received a great interest in recent years, by making a lot of studies and researches by different authors of different countries. It has been now recognized that the banking system plays an important role to generate boom and bust cycle in the economy by expanding and contracting credit flows. More importantly, banks' balance sheets tend to be a mirror image of the economy especially when the balance sheets of the whole economy are not readily available (Villar, 2006).

The first mission of all banks is to achieve customer satisfaction and customer retention. In order to fulfill this, during the last few years banks over the world started to introduce online banking systems which facilitates the transactions and saves time to the customers. Banks invest billions in the internet infrastructure, developing simple banking web sites into comprehensive e-banking portals offering a great variety of services in addition to traditional bank products and thereby enabling customers to gain financial advice from merely one source. Profitable e-banking requires a strong focus not only on the acquisition of new customers but also on the retention of existing customers (Reibstein, 2002; Reichheld and Scheffer, 2000). In order to enhance customer loyalty, portals are required to put a strong emphasis on their customers' quality demands, which are steadily increasing over time due to the growing competition in the internet banking industry (Jun and Cai, 2001). Customer loyalty has been recognized as a key path to long-term profitability.

Online Banking is nowadays offered by almost every bank. It has benefits for both parties making the contract. Through online banking people can access to their account and perform online transactions without visiting the bank. This innovative feature firstly was not considered except few people, but after some time others also came towards and these days banking is mostly done online. There are a number of benefits to banks through online banking. Online banking has both, advantages and disadvantages. For most of the people online banking is a great benefit and for some feel that it has made life more complicated.

This study is structured as follows: starting from an introduction about the banking system in Albania and the creation of banking online portals. The second part is a literature review on e-banking portals, starting from explaining the definition of OBS, history and its characteristics. Next part is the historical of online banking in Albania. The paper ends with conclusions.

## HISTORY OF ONLINE BANKING

Online banking (OLB) is an electronic payment system offered by financial institutions which gives its customers the possibility to conduct financial transactions by using internet. Such institutions can be a retail bank, virtual bank, credit union or building society. Online banking is also referred as Internet banking shortly written as e-banking, virtual banking etc.

In order to access and use a financial institution's online banking website, a customer with Internet access would need to register with the institution for the service, and set up a personal password for its verification. Financial institutions now routinely allocate customers numbers or names, whether or not customers have indicated an intention to access their online banking facility. Customers' numbers are normally not the same as account numbers, because a number of customer accounts can be linked to the one customer number. The customer can link to the customer number any account which the customer controls, which may be cheque (check), savings, loan, credit card and other accounts. Customer numbers will also not be the same as any debit or credit card issued by the financial institution to the customer.

To access online banking, a customer would go to the financial institution's secured website, and enter the online banking facility using the customer number or name and password previously setup. Some financial institutions have set up additional security steps for access to online banking, such as sending a verification code on the customers mobile phone each time he tries to enter the website.

The term 'Online' became popular in the late '80s and referred to the use of a terminal, keyboard and monitor to access the banking system using a phone line. Online services started in New York in 1981 when four of the city's major banks (Citibank, Chase Manhattan, Chemical and Manufacturers Hanover) introduced online banking services using the videotex system (Cronin, 1997). Because of the commercial failure of videotex these banking services never became popular except in France where the use of videotext (Minitel) was subsidized by the telecom provider and the UK, where the Prestel system was used.

When the clicks-and-bricks euphoria hit in the late 1990s, many banks began to view Web-based banking as a strategic imperative. The attraction of banks to online banking are fairly obvious: diminished transaction costs, easier integration of services, interactive marketing capabilities, and other benefits that boost customer lists and profit margins.

In the 1998s the financial industries greatly expanded with banks' customer bases. Following this, banks looked to the Web as a way of maintaining their customers and building loyalty. A number of different factors are causing bankers to shift more of their business to the virtual realm. While financial institutions took steps to implement e-banking services in the mid-1990s, many consumers were hesitant to conduct monetary transactions over the web. It took widespread adoption of electronic commerce, based on trailblazing companies such as America Online, Amazon.com and eBay, to make the idea of paying for items online widespread. By 2000, 80 percent of U.S. banks offered e-banking. Customer use grew slowly. In 2001, Bank of America became the first bank to top 3 million online banking customers, more than 20 percent of its customer base. In comparison, larger national institutions, such as Citigroup claimed 2.2 million online relationships globally, while J.P. Morgan Chase estimated it had more than 750,000 online banking customers. Wells Fargo had 2.5 million online banking customers, including small businesses. Online customers proved more loyal and profitable than regular customers. Today, many banks are internet only banks. They differentiate themselves by offering better interest rates and more extensive online banking features.

## TYPES OF ONLINE BANKING

Currently, there are three basic kinds of Internet banking that are being employed in the marketplace:

### 1. *Information*

This is the most basic level of Internet banking. The bank has marketing information about its products and services on a stand-alone server. This level of Internet banking service can be provided by the bank itself or by sourcing it out. Since

the server or Web site may be vulnerable to alteration, appropriate controls must therefore be in place to prevent unauthorized alterations to data in the server or web site.

### *2. Communication*

This type of Internet banking allows interaction between the bank's systems and the customer. It may be limited to electronic mail, account inquiry, loan applications, or static file updates. The risk is higher with this configuration than with the earlier system and therefore appropriate controls need to be in place to prevent, monitor, and alert management of any unauthorized attempt to access bank's internal network and computer systems. Under this system the client makes a request to which the bank subsequently responds. Works on the same principle as the e-mail.

### *3. Transaction*

Under this system of Internet banking customers are allowed to execute transactions. Relative to the information and communication types of Internet banking, this system possesses the highest level of risk architecture and must have the strongest controls. Customer transactions can include accessing accounts, paying bills, transferring funds, etc. These possibilities demand very stringent security.

## **USAGE OF E-BANKING PORTALS IN ALBANIA**

Banking system in Albania was composed of only one bank, Central Bank of Albania, which was established in 1946 during the communism period. It played the role of both monetary and credit authority of the economy. While its role as a financial intermediary was rather limited since the system was centralized.

As part of the economic reform started in 1992, the reform of the banking system started by change of the legal provisions. The Assembly, in April 1992, adopted the Law "On the Bank of Albania" and the Law "On the banking system in the Republic of Albania". The banking system recorded a change from one level system, to two levels banking system. On the basis of these laws it was started the process of licensing of new private banks. After that the banking activity in Albania has been expanding, even slowly, by reaching about 46% of the GDP in 1996 and 50% in 2003 (Ibrahimi and Salko, 2001). Nowadays there are 16 commercial Banks in Albania (Bank of Albania, 2015).

Most of the products offered by commercial banks in Albania are part of the traditional services: deposits, accounts, transfers. Deposits were the best known product by the public, but in recent years, efforts to minimize cash transactions (channeling employees' salaries through banks) led to a rapid development for other products (can mention loans, overdrafts, cards, etc.). A part of the users, initially mistrusted such products and tried to stay away from them, but gradually, with increasing amount of information about the advantages of these products, their usage is becoming a routine. Banks played an important role in informing the public regarding these products.

After familiarization with the above products, it was time of introducing internet banking in Albania. The first bank that has offered this product is the American Bank of Albania in 2002, with the introduction of ABAflex. There have been efforts by other banks to provide such services, such as Raiffeisen Bank, via MultiCash, which provides transfers. But this service was only for a limited number of companies "neglecting" individuals.

Following them Credins Bank and National Bank also began with e-banking which initially offered only account information. The above facts speak for internet banking in its infancy in Albania. Although in the Albanian market there are banks that have the support of powerful groups of foreign banks, this service has not yet been developed as in developed countries. The main reason is the cost – revenue ratio.

Nowadays various banks in Albania use internet banking offering all possible services.

According to Christian Canacaris, Director of Albanian Association of Banks (AAB), in 2015, 12 out of 16 banks in Albania offer internet banking, 7 of them have introduced banking via phone (mobile banking), while there are also other services offered as MultiCash, SMS banking, and collaborations with non-banking institutions that offer payment via mobile phone, such as M-Pay and EasyPay. To be more precise, only in 2014 were carried out more than 1.2 million transactions via the Internet, with a total value of more than 164 billion Lek (1,171,428,571 euro). (Canacaris, 2015)

Given the performance of all these products, internet banking in Albania will possibly be in a rapid development in the future. However, this will depend primarily, from the security of the service that banks will offer and secondly, transparency with clients about the costs.

## **ADVANTAGES OF ONLINE BANKING**

### *1. View your transactions*

It has made easier for customers to keep track of their daily transactions by just logging into their online bank account. Online banking allows you to access your account history and transactions from anywhere. This is the quickest way to check and see if a transaction has cleared your account.

### *2. Transfer money between accounts*

Online banking also allows you to transfer money between accounts much more quickly. You can save a trip to the bank so save your time. When you apply or set up your online banking, be sure that all of the accounts you have at the bank are listed. This will make it easier to transfer money and make loan payments online. You also have the option of transferring money between different banks online. This will not happen as quickly, since the money still needs to go between financial institutions, but it is much more convenient than running to the bank.

### *3. Pay the bills online*

Online banking can be used to pay the bills. Most banks will have a section in which we set up payees. You will need to fill out the information once, and then you can simply choose that profile every time you pay a bill online.

### *4. Protect Yourself Online*

It is important to be careful when banking online. You do not want your safety or privacy to be breached. It is important to be careful if you are at a public computer. Additionally, you need to make sure that your password is long enough to prevent it from easily being hacked. Never give your online account information to someone who is not an authorized signer on your account. These steps should protect you from identity theft.

## **CONCLUSIONS**

Internet banking in Albania is on the rise. Offering of this service during 2015 from 12 out of 16 banks in Albania is a very positive signal for the future of internet banking in this country. When internet banking is viewed as different channel, its benefits are modest. However, when integrated with other channels, Internet banking becomes a powerful tool for improving customer satisfaction and increasing cross-selling opportunities. But at the same time banks must keep in mind that, every electronic channel including the Internet has its short falls which can have major consequences.

Keeping track of the ever changing banking industry and the latest update in Internet technology, banks need to equip themselves for the competition. After a review at e-banking portals in Albania, it can be seen that at most of them there are different problems with the functionality and security, and in some banks also problems with design, compatibility among different browsers and user interface.

Even though there are enormous opportunities and virtual banks are on the rise physical banking and transactions should not be neglected or relegated to the sidelines. This is because there are numerous aspects of banking which cannot be currently accomplished by electronic impulses.

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