

EXPERIENCES OF ELECTRONIC BANKING SERVICES IN HUNGARY

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Abstract. Internet- technology is nowadays commonly used in the financial sector, mainly in the field of customer-relations. Electronic finance covers the full system of the customer relationship management, a.k.a. phone, fax, e-mail, mobile and web-channels. This study covers only the usage, advantages and disadvantages of internet-based channels. Transferring information and carrying out transactions via the electronic channels is beneficial for the financial institutions as well as the clients. The role of the traditional infrastructure, the branch-system has to be adapted to the needs of the future. This study summarizes the experiences of the Hungarian digital banking industry based on personal interviews and public statistical and academic resources. It covers the description of solutions, services and clientele in the modern on-line banking systems and shows a perspective of how the financial institutions should step forward towards the maximal fulfillment of the digital needs.

Introduction

Internet- technology is nowadays commonly used in the financial sector, mainly in the field of customer-relations (CRM). Electronic finance covers the full system of the customer relationship management, a.k.a. phone, fax, e-mail, mobile and web-channels. This study covers only the usage, advantages and disadvantages of internet-based channels. Transferring information and carrying out transactions via the electronic channels is beneficial for both the financial institutions and the clients.

Recent studies show that internet shopping has already reached 10% of all retail sales. So, this is a several hundred thousand billion dollar segment, where digital payment is used day by day to fulfill the pecuniary side of the commercial transactions.

This study covers the experiences of the modern on-line payment systems and shows a perspective of how the financial institutions should step forward towards the maximal fulfillment of the digital needs. Because something is still missing from the strategic picture of this mainly technology-driven sector, and this is the consumer and the real, detailed CRM.

1. The Hungarian market

Considering e-banking, e-brokering or e-insurance, Hungary is a quickly growing market. E-banking is the most popular area, here the number and proportion of clients have grown continuously in the past five years, and as the numbers below show, there is still a

large potential for it in the market (see Figure 1). Generally, the Hungarian retail financial market is very conservative, way above the European average, even the Eastern-European averages. This means that the role of cash is very important in the retail sector and its amount in circulation is increasing 6-6.5% every year. Concerning electronic finance, the card business has the absolute lead in this country, but only the usage of debit cards is really widespread, and in most cases these are used for cash withdrawals.

In the corporate market, the Hungarian law strictly determines that account transfer is the only official method accepted. This means that the potential for modernisation is to digitalize this function. The office-banking packages offered by the Hungarian financial institutions completely fulfil this demand along with other useful services like cash management, account-administration, etc.

There are over 500.000 clients in the retail market, which is over 10% of the whole clientele. In a basically conservative country this is a very good proportion, and there is a steady growth of 10-15% per year. The main motivation for the use of the internet-based channels is that it is time-saving, and only the basic functions are used: such as single or recurrent account transfer, querying the balance or maybe some deposit manipulation. It is up to the financial institutions now, whether they can offer electronic services, which generate real value for the clients – for example on-line crediting –, so that the electronic channel can become almost equivalent with brick and mortar branches.

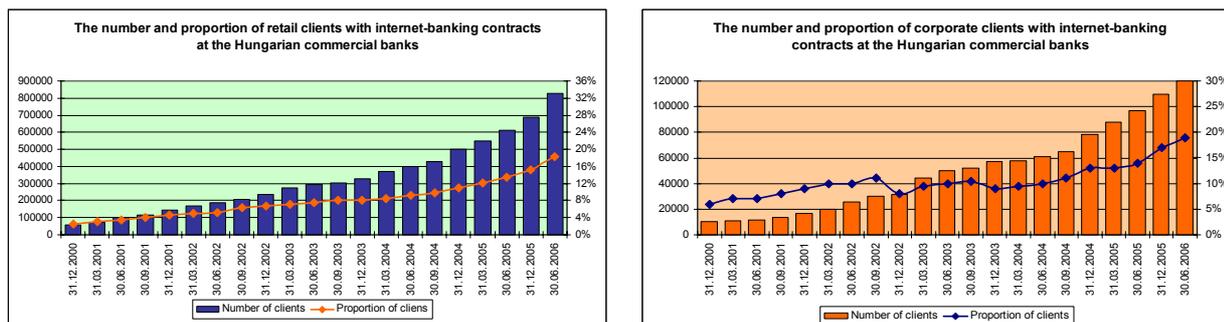


Figure 1. The number and proportion of internet-banking clients in Hungary 0

The corporate market is better off with services of real value, as the office-banking packages offer lots of functions, which can make the life on the financial division of a company easier. As in this case the account transfer is the core function, a wide range of its variants is accessible. Besides the single and recurrent transfer, spot and forward encashment, recurrent collection is the most important functions completed with account administration, cash management, international transfers via RTGS (Real Time Gross Settlement) etc. The potential for the B2B market is limited, as the number of companies is not growing so significantly, and most of them need only standard functions. In this case, competition should rather focus on usability, security, flexibility and scalability than provide a huge variety of services. This last point means that the systems have to be completely tailored to the needs of the single companies, to reflect the hierarchic and power structures in the possible transactions/decisions.

The relatively widespread usage of electronic channel changed the banking system as well. Electronic channels now have a serious significance in the strategy of the financial institutions. The banks can also save a large sum of money and labour force, as the electronic transactions are much cheaper. The role of the branches is changing from transaction centres to sales centres. The role of the staff is now more of a financial advisor (and a cashier in case of cash transactions), than of a human interface between the client and the accounting system.

2. Common experiences

The qualitative studies of this area have revealed some very interesting common experiences about the consumers of internet financial services:

- **Internet penetration and the high-speed broadband access grow rapidly at a global scale.** The technological barriers ahead of complex secure and high-speed financial services are melting as corporate and retail access makes electronic finance accessible to an always-wider range of clients.
- **Internet-financial services developed into a motivation force of new connections to the Web.** Many people have recognized how much

time and trouble can be saved by carrying out financial transactions from their home or office. The process of cause and effect works today both ways: those who have internet-connection use e-finance services, but the wish to use these services now motivate new connections to the web.

- **Internet-finance is beginning to find its strategic place in the service portfolio of most financial institutions.** The number of clients and the revenues produced by this sector clearly show that it is now a very important segment of financial life, which should not to be administered only by IT experts, but by strategic business planners at higher levels of hierarchy.
- **The return rate of internet-financial investment has become foreseeable in the last few years.** Earlier the main motive for these investments was the fear of falling behind the competitors. This point of view generated technology driven investments, without a thorough economic planning because it has been more important to follow the trends. This approach had both positive and negative effects. The positive effect was that the financial sector procured the best IT technology after the military one, which prove to be a very solid and abiding foundation for today's internet-financial services. The negative effect was the unthrift without considering the real demands of the clients and the market. The infrastructure was not homomorphic through the whole system. Enormous unexploited capacities existed along with bottlenecks breaking the whole line of IT. Service and system planning was technology driven with little business insights. The whole approach was "push" like, supply driven rather than taking the real demand in consideration. The rates of return were unforeseeable, but it did not concern IT-experts much. For example the magnet stripe based credit card technology needed almost fifty (!) years to become profitable on a global scale taking all the costs and revenues into consideration. By now the situation has changed: IT and business work together more closely, but the demands of the clients still do not always find their way into the everyday practice of internet-financial systems.

- **The clients using the electronic channel have many specific characteristics, which differentiate them from other client segments of financial institutions:**
 - Clients with online banking contracts burden other, traditional channels much less than other types. (For example, clients with phone banking contracts.)
 - Clients using the online services change their financial service provider (bank, broker or insurance company) very rarely. Clients satisfied with the online services prove to be more loyal to the institution. They are accustomed to one type of system and do not tend to change and learn a new one for short-term benefits.
 - Online clients almost never cancel the service. Clients who try online transacting once experience its benefits immediately, so if nothing extreme happens they never want to go back to queue in the branches again.
 - Online clients try and use a wider variety of services. Most clients are curious and like to try new things out. Statistic shows that the users try almost every service of the on line system at least once. If the service was beneficial and fulfilled the expectations, they become regular users more often than the clients attending branches.
 - Online clients generate greater revenue, because of carrying out more transactions. To carry out a transaction online need only a few clicks, it is fast and easy. Most clients like carrying out transactions, they feel as if they were using their money. At brokerage firms on-line clients buy and sell securities more rapidly and generate more revenue per head than “traditional clients”.

But still, something is missing. The consumer is still a very weak point in these processes. The finan-

cial institutions, which keep the payment transactions in their grip, lay little emphasis on the real needs of consumers, and so leave many possibilities unexploited [1, 8]. The CRM possibilities of this sector are very intense, personalization and mass-customization are the key phrases of continuously growing customer satisfaction and loyalty.

3. Consumer motivation

3.1. Time saving

As for the electronic banking, brokering and insurance services: the main motivation of the retail segment is clearly time saving. Any research concerning this topic shows that electronic financial services are becoming more and more popular, because by the use of them queuing up in the brick-and-mortar branches becomes unnecessary [5, 6]. The continuously growing retail and corporate internet-access makes it possible for more and more people to gather financial information and carry out transactions via the World Wide Web.

3.2. The range of services

As for the financial institutions, they have to make an important decision in order progress further in the development of internet based retail services. It has to be decided whether digital services are just complementary part of the banks’ strategy and it only provides some services through electronic channels or digital services are a core area and the institutions’ aim is to provide as wide a range of services as possible. The answer is definite neither in the Hungarian nor in the international financial market. The long range strategy, the image, the market and the possibilities of a financial institution greatly determine the way. As Figure 2 shows, there are three main answers to this question.

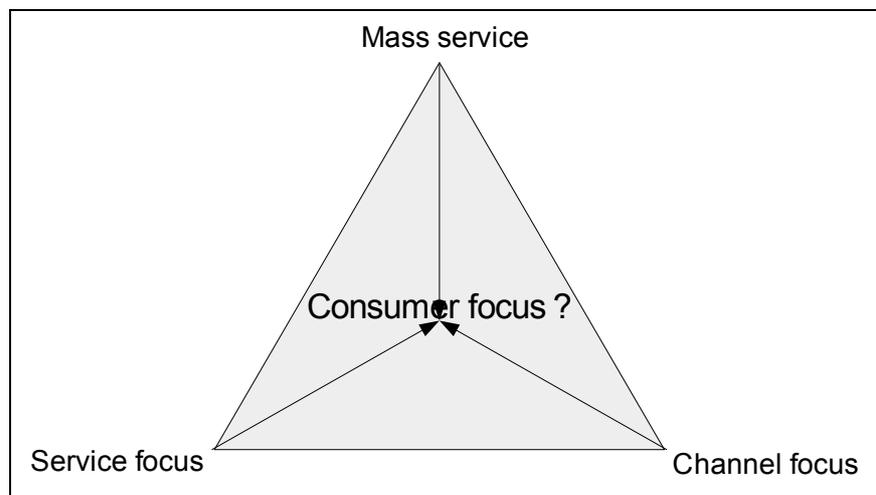


Figure 2. A service focus model of internet-finance

- The first group of financial institutions follows *a strategy of serving as many clients as possible through every possible channel*. These universal financial institutions try to combine the service range of banks, brokerage firms and insurance companies. These financial holdings possess a large number of brick-and-mortar branches as well as a digital portal to serve their clientele. As these firms do not focus on a certain client group or line of service, both channels have to be handled as equally important, as certain groups of clients prefer one or the other. The electronic systems focus generally on the most commonly used functions that generate larger profit for the bank. For example, only traditional deposit functions are accessible through the internet-system, and more beneficial securities based transactions are not. The clients willing to spare time use only the functions, which are accessible through the web, thus generating larger profit for the financial institution. This is not a fair, but alas a commonly used method in the Hungarian market.
- The second group focuses on *a certain line of services*. These institutions are called financial specialists. Some only provide mortgages, others car or commodity loans, etc. In this case, the use of electronic channels depends on the service and the typical clientele. For example, car loans are typically administered through the merchants; in this case, the bank has to have a professional electronic system linking it to the partner merchants. This system has to serve only a limited number of professional users and not the general public. On the other hand, mortgage loans are typically a consequence of an individual search that is why the electronic channels of a mortgage institution have to be open toward the public.
- The third group focuses on *a certain channel*. In case of a traditional bank or brokerage firm, where private banking, personal financial consulting is the main profile electronic presence does not have to be stressed. On the other hand, many discount banks, and brokerage firms have opened their gates lately. These institutions have only a very limited number of traditional branches and offices if any, they are only present on the network. With the saving of infrastructural and human resource costs, these institutions can provide their services at a much lower price than their competitors. Their target is the price-sensitive and modern consumer.

3.3. Discrimination

Discrimination is a core question in the retail segment. As most institutions provide the same services through more or less similar portals, it is harder to show their uniqueness and to keep the loyalty of their clients. In the first period of the digital financial presence the institutions tried to compete purely in the

field of prices. It is clear that such competition has limits and a suicide price dropping is beneficial neither for the clients nor for the banks. A good way to keep the loyalty of a client is to connect him or her to the institution through most possible channels and products. If someone has one or more accounts, recurrent account transfers, deposits, loans, car and home insurance and maybe some securities at the same company, it is very difficult to move. A bit better offer is not worth the fuss of a change. This is the way of the universal financial service providers, but it is not the right way. This is a bit like keeping the client in a trap.

If a financial firm wants to be successful electronically, it has to utilize the today still neglected possibilities of customer relationship management (CRM) and personalization. Much information about the clients is accumulated in the electronic systems of the financial institutions, which can serve as a competitive edge if it is known how to gather, sort, store and utilize it. Whether privacy professionals like it or not, accurate client profiles can be built from these data, which can be used to offer personalized services to the individual clients according to their consumer habits automatically.

Artificial intelligences and expert systems based on data mining routines can produce forecasts and unique offers automatically at a low cost. The feeling of being a unique client can keep the loyalty more than any price drops.

The main motivation for the use of the internet-based channels is that it is time-saving, and only the basic functions are used: such as single or recurrent account transfer, querying the balance or maybe some deposit manipulation. It is up to the financial institutions now, whether they can offer electronic services, which generate real value for the clients and really utilize the CRM-possibilities of an integrated electronic channel system. So the electronic channel can become almost equivalent with brick and mortar branches.

4. Conclusion

This study tried to round up the characteristics of consumers of the digital financial services. The leading concept is that financial service providers often carry out autotelic innovations and service development, as the IT sector of financial institutions sometimes does not seek after getting to know the real customer well enough. That is why some developments have extremely long payback periods and many possibilities to tie the customers to the institutions with satisfaction and loyalty remain unexploited.

The study first reviewed the most current practical experiences of the consumer relations in the field of e-finance, seeking the characteristics of this special, and strategically more and more important target group.

From the models it is clearly shown that winning over the customer, this vital and still scarce actor of e-

finances, is a hard job requiring thorough strategic planning and product development. Only this makes it possible to provide a range of quality services, which generate value for the consumers, and so are a solid basis of satisfaction and long-term loyalty.

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