

ONLINE BANKING IN THE ROMANIAN BANKING SYSTEM

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ABSTRACT: *In the world of banking, the development of IT has a huge effect on development of more flexible payments methods and more user-friendly banking services. Recently, modern electronic banking services, internet and mobile banking, have rejuvenated banking transactions. Electronic banking over the Internet is one of the newest e-banking services with several benefits both for banks and for customers. The paper aims to provide an overview of online banking services highlighting various aspects globally as well as in the Romanian banking system. Even if there already are several studies on web banking, this topic still remains a resourceful area for academic research in the next decade.*

KEY WORDS: *banking industry, electronic banking services, internet banking.*

JEL CLASSIFICATIONS: *G21.*

1. CONCEPTUAL BACKGROUND

Types of e-banking services are available for quite some time through ATMs and telephone transactions. More recently, modern electronic banking services, internet banking and mobile banking, have rejuvenated banking transactions (Drigă & Isac, 2014). Online banking (or internet banking, web banking, virtual banking), one of the newest Internet technology applications, was first introduced in the 1980s in the United States and almost simultaneously arrived in Europe, specifically in the United Kingdom. Internet banking, a form of electronic banking, focuses on providing banking products and services through web-based on-line browsers and bank portals (Ezzi, 2014).

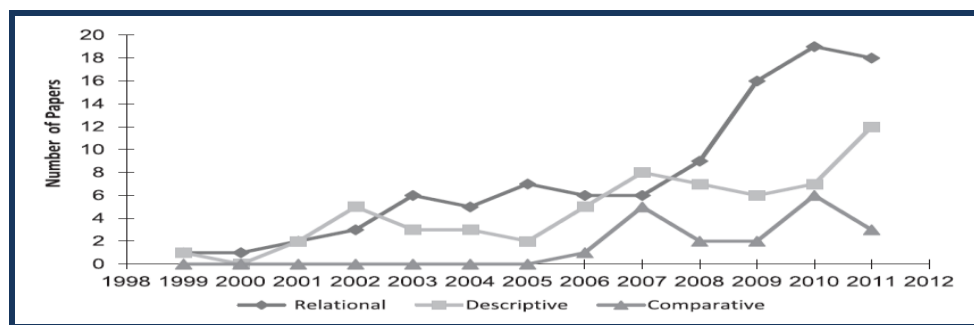
Electronic banking services over the Internet had been defined in many ways by researchers. According to Pikkarainen et al. (2004) internet banking is an "internet portal, through which customers can use different kinds of banking services ranging from bill payment to making investments". Online banking refers to systems that

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enable bank customers to access accounts and general information on bank products and services through a PC or other intelligent device, allowing customers to access almost any type of banking transaction at the click of a mouse (DeYoung, 2001). Internet banking, also known as virtual (cyber net) banking, is an advanced form of PC banking, using the Internet as a distribution channel for conducts banking activities such as: transfer funds, pay bills, view account balances of savings, mortgage payment, buy financial instruments or certificates of deposit etc. Web banking allow active people to finish financial operations in a cost-effective and efficient way 24 hour per day, regardless of their location, providing a vast array of financial services (Makris et al., 2009).

There are several research papers aiming to explore the literature on online banking. Thus, Hanafizadeh et al. (2014) published a study that presents a systematic review of 165 research articles on the adoption of Internet banking between 1999 and 2012, exposing an increasingly growing interest, during this period, for the topic of web banking. The authors' findings reveal that the online banking adoption literature can be classified according to three main topics: descriptive, relational and comparative (Hanafizadeh et al., 2014):

- *Descriptive studies*: that describe the phenomenon and identify the characteristics and attitudes of internet banking adopters, barriers to adoption and the appealing features that drive adoption, relying on primary and secondary evidence;
- *Relational studies*: that seek to understand the interplay between the factors that drive adoption, attempting to explain and predict the phenomena of online banking adoption through models and theories;
- *Comparative studies*: that investigate internet banking adoption by concentrating on comparisons among key variables (population, distribution channels, methods).



Source: Hanafizadeh, P.; Keating, B.W.; Khedmatgozar, H.R., *A Systematic Review of Internet Banking Adoption, Telematics and Informatics*, 2014, vol. 31(3), p.499

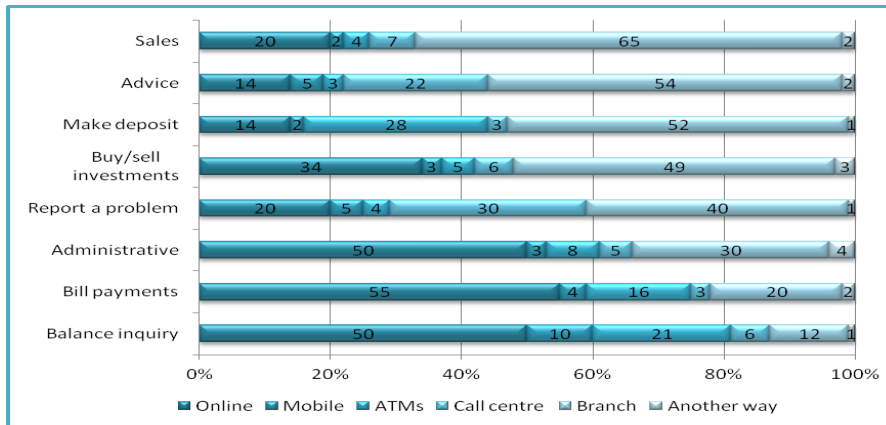
Figure 1. Distribution of papers by classification criteria and year

2. THE RISE OF ONLINE BANKING

As technology plays an increasingly important role in the evolution of the banking industry, the entrance of new technologies in banking led to significant changes among strategies to adopt new challenges and consumer attitudes. E-banking

services via the Internet are considered representative for the new economy as they represent one of its typical products.

Since a major driver in banking industry change is the consumer demand to be better connected to their money, high-quality internet banking services being important criteria in choosing a bank, digital banking services are coming to the fore. Thus, branch banking started to lose ground to virtual banking as the use of remote banking services increased. There are a number of studies that identify consumer preferences when it comes to using different delivery channels when interacting with their banks. According to a 2014 EY Global Consumer Banking Survey, the Internet is the preferred banking method for 55% of respondents globally for paying bills or making transfer and for 50% for balance inquiry (see figure 2), while branch banking is favoured for deposits, advice and sales. From several alternative channels to choose from, customers prefer the internet, mobile and ATMs on a daily basis, ATM and online channels for weekly usage while branch banking is still the most common option for monthly usage (Drigă & Isac, 2014).



Source: EY, Global Consumer Banking Survey, 2014

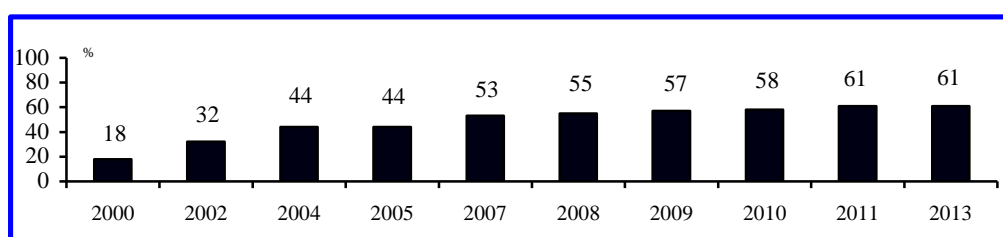
Figure 2. Percentage of channel preference by task

Due to globalisation and competition, rapid and irreversible changes across technology, customer behaviour and regulation, banks are forced today to offer service 24 hours around the globe (Abubakar & Tasmin, 2012). Although there are certain impediments lying in inconvenience owed to security factors and in considerable high costs of installing and maintenance for information and communications technology, internet banking has become one of the most important factors in the business economy today.

Nowadays, the Internet represents for banks a distribution channel of banking products and services as well, leading to the improvement and diversification. Due to its fast evolution, the Internet has brought tremendous opportunities for the banking industry and the development potential is huge. However, although the Internet was quickly embraced as banks realized the rising popularity of the World Wide Web gave

them an added opportunity to advertise their services, in many countries the banking sector faces a slow adjustment of customers to this new way of banking (Drigă, 2012).

Thus, for example, even if Americans are becoming increasingly comfortable with socializing or going to school online, only 61% of all Internet users in the USA bank online (representing 51% of U.S. adults). According to Pew Research Center data (Pew Research Center, 2013), online banking among Americans although increasing is still somewhat slow (see figure 3) due to the fact that internet banking is a privileged target for cyber criminals, and not necessarily because of a technological gap (table 1 displays data based only on internet users). Online banking adoption rate is fairly even across all age groups. Nevertheless, younger generations happily bank over the web while older bank customers choose traditional, in-branch services.



Source: Pew Research Center, 2013

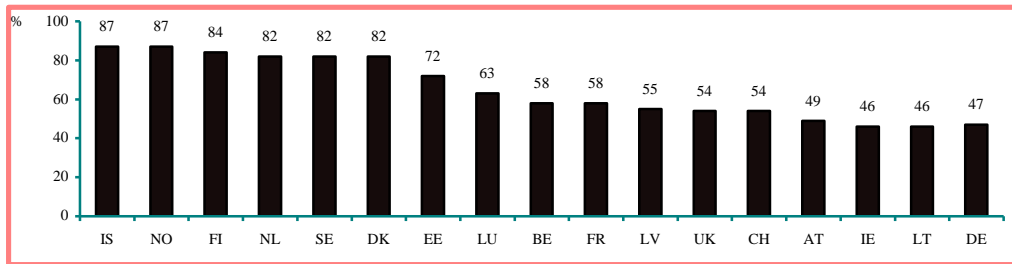
Figure 3. Present of internet users who have used online banking services

**Table 1. Banking online in the USA by demographic group
(% of internet users who bank online)**

Gender	%	Age	%	Race	%	Urbanity	%	Education	%
Men	63	18-29	67	White	63	Urban	62	No high school	30
Women	58	30-49	65	Black	48	Suburban	66	High school grad	47
		50-64	55	Hispanic	62	Rural	42	College	66
		65+	47					College +	75

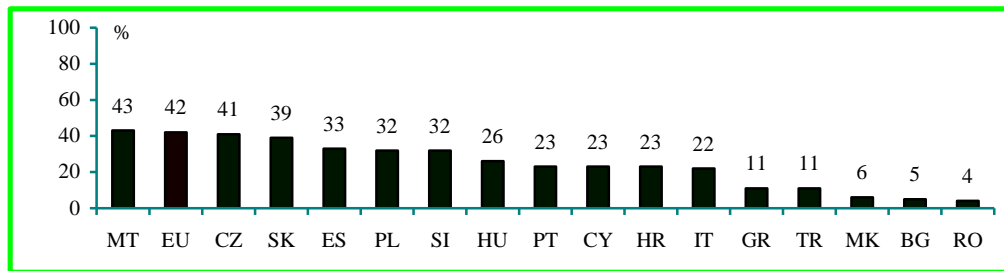
Source: Pew Research Center, 2013

The usage of Internet banking by Europeans varies significantly from one state to another. In Europe in 2013, the highest rates of internet banking usage were recorded in Iceland and Norway - 87%, Finland - 84%, the Netherlands, Sweden and Denmark - 82% (see figure 4). In terms of the share of internet banking users, the last places are occupied by Romania - 4%, Bulgaria - 5%, Macedonia - 6%, Turkey, Greece - 11% (see figure 5). According to data presented above, rates of online banking using reach high values in Northern Europe and fall increasingly on south. Thus, at the end of 2013, 87% of people in Iceland and Norway have used the Internet to access banking services, but only 4% of Romanians turned to the web for banking services. In some countries in Northern Europe (Finland, the Netherlands, Sweden and Denmark) more than 80% of the population use bank online, still in many European countries the rate of Internet banking usage has remained below the EU average of 42% (see figure 6).



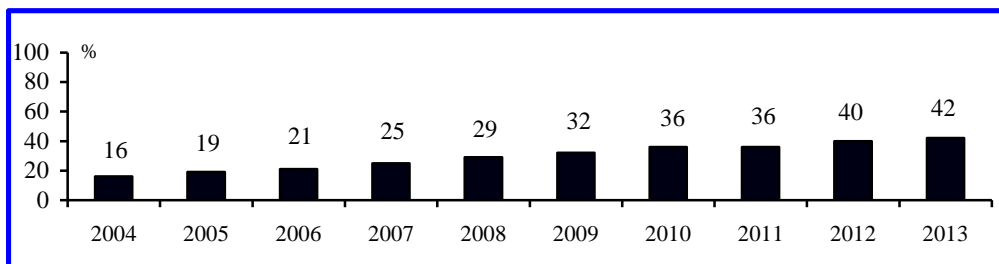
Source: based on data from the Eurostat database, <http://ec.europa.eu/eurostat>
 Note: Country code: IS - Iceland, NO - Norway, FI - Finland, NL - Netherlands, SE - Sweden, DK - Denmark, EE - Estonia, LU - Luxembourg, BE - Belgium, FR - France, LV - Latvia, UK - United Kingdom, CH - Swaziland, AT - Austria, IE - Ireland, LT - Lithuania, DE - Germany

Figure 4. Online banking penetration rate across Europe in 2013



Source: based on data from the Eurostat database, <http://ec.europa.eu/eurostat>
 Note: Country code: MT - Malta, EU - European Union, CZ - Czech Republic, SK - Slovakia, ES - Spain, PL - Poland, SI - Slovenia, HU - Hungary, PT - Portugal, CY - Cyprus, HR - Croatia, IT - Italy, GR - Greece, TR - Turkey, MK - Macedonia, BG - Bulgaria, RO - Romania

Figure 5. Online banking penetration rate across Europe in 2013



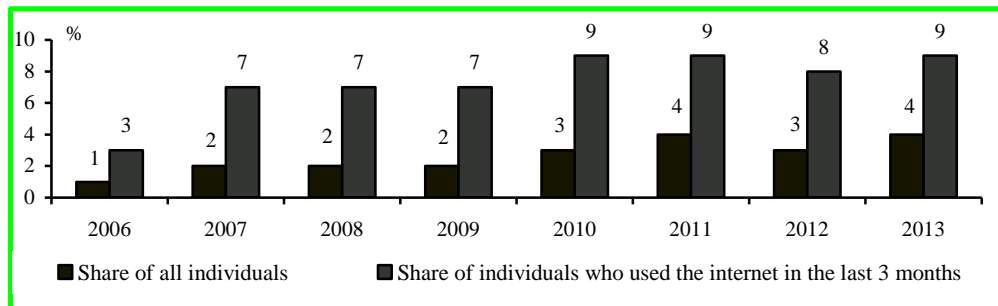
Source: based on data from the Eurostat database, <http://ec.europa.eu/eurostat>

Figure 6. Average online banking penetration rate for the EU, 2004-2013

Online banking are growing fast while branch importance decline rapidly. Even though internet and mobile banking does not completely replace other channels, they have become lately the dominant means for consumers to interact with their banks in a relevant number of countries (Drigă & Isac, 2014).

3. ONLINE BANKING IN THE ROMANIAN MARKET

Although the development of online banking has been relatively slow in Romania compared to other EU countries, this electronic service has a significant growth rate lately due to an increasing access to the Internet as the percentage of online banking users in Romania went up from 1% to 4% from 2006 to 2013. Statistics shows the online banking penetration in Romania in 2013 reached 4% (see figure 7), but usage was higher among those who had used the internet within the last three months.



Source: <http://www.statista.com>

Figure 7. Online banking penetration in Romania from 2006 to 2013

Table 2. Internet banking in Romania, 2011-2012

Bank	Number of customers		Number of transactions	
	2011	2012	2011	2012
Alpha Bank	33200	33100	1533715	1474183
Banca Carpatica	11466	14043	231994	281006
Banca Românească	21348	24141	412112	467613
Banca Transilvania	221331	291755	3964149	5125388
BancPost	123076	204654	1395024	1464225
BCR	699315	651345	10144447	11005906
BRD	398956	458808	4280000	5110000
Credit Europe Bank	15600	22000	442000	488000
Graniti Bank	68000	80000	586400	832215
ING Bank	374400	384700	11450000	12700000
Intesa Sanpaolo Bank	8205	12023	270888	359073
Libra Bank	17053	22208	241634	289083
OTP Bank	23630	25318	781592	872499
Piraeus Bank	18500	18500	615000	606000
Pro Credit Bank	3887	4360	190632	231267
Raiffeisen Bank	515000	659943	4900000	5517977
Romanian International Bank	3666	4263	70041	77502
UniCredit Ţiriac Bank	120921	143420	5056536	6205412
Volksbank	28170	45117	603744	747192
Total	2705724	3099698	47569808	54354541

Source: eFinance, Online banking - A deeper and more mature market in 2012, April 2013

In recent years, the number of internet banking users has been growing exceptionally, underlining an ongoing interest and increased public awareness of such services. First, this development is based on the adoption and use of online banking applications by individuals. At the same time, the expansion of internet banking services is not proportional with the number of transactions and their value, this shift being induced mainly by companies.

A survey on the most important banks in Romania carried out by the eFinance magazine, showed that the number of customers who bank online in Romania increased in 2012 as against the previous year by almost 400,000, while the number of Internet banking transactions has increased with 11% (see table 2).

As alternatives to the traditional payment system, virtual banking is typically cheaper involving lower fees than branch banking. However, the number of customers using this facility is quite low compared to customers who use banking services through traditional distribution channels. Moreover, internet banking services, which are free in most European countries, are charged by the majority of the Romanian banks with amounts to about 1 euro/month. Although there are banks that offer free online banking services, major banks in the Romanian banking system impose high commission levels for these services (see table 3).

Table 3. Internet banking commission levels

BCR	BRD	BT	Raiffeisen Bank	UniCredit Tiriac Bank	CEC Bank	ING Bank	Alpha Bank	Volksbank
3 RON / month	1 EUR / month	1 RON / month	4 RON / month	0	3 RON / month	3 RON / month	4 RON / month	3 RON / month
Bancpost	Piraeus Bank	Banca Românească	OTP Bank	Credit Europe Bank	Banca Carpatica	Marfin Bank	Libra Bank	ProCredit Bank
1 RON / month	2 RON / month	0	1.5 EUR / month	0	3 RON / month	0	0	3 RON / month

Source: <http://www.ziare.com/>, 27 November 2014

4. CONCLUSIONS

Internet banking is the fastest rising service that banks can offer so as to gain and keep new customers, providing important benefits to banks, as well as to customers. Market developments proves that banking transactions through remote channels have become important to users as they allow customers to spend more time doing things that are meaningful to them and less time banking. In the same time, electronic banking services over the Internet are simple and convenient to access and involve lower costs compared to traditional branch banking. However, the percentage of online users is not as high globally and their interest in internet banking is sometimes weak mainly because of security issues that scare many people away from banking online. Moreover, although online banking apparently attracted diverse users, recent studies confirm earlier reports of difficulties attracting certain groups to internet banking. Beyond the importance of the offer of banking services on the Internet, studies show that online banking users are mostly younger people with higher

education and higher annual incomes than average. Statistics show as well that compared to traditional customers internet banking users generally are customers connected to a wide range of products from the bank's offer.

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