

The Advantages of E-Banking in the Albanian Banking Sector (Case of Shkodra)

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Abstract:

In a digitalized world, e-banking is a modern method in making business that addresses the technology usage at the most advanced level in trading a banking service or product. E – banking provides consumers at a high speed level, cheaper and at restricted time from the world wide web from the chair of their home. From one side to the other of the world, it seems that banks are trying more to digitalize the way they offer their services, faster and better to their consumers. Long crowds of people in banking retail points and the signed documents, are being substituted at a mouse click – to benefit the necessary banking services.

E-banking doesn't have a meaning when we are not describing a facilitating payment system. “Cash” money – nowadays is being substituted with “scriptural” money that is being transferred in banking system. (Zaho and Drini 2003)

The payment systems had a radical change, in the way they were created, and to their treatment. The payment for the good and services, in a digitalized world, are made through the credit and debit cards, which is a service offered from the banks.

Key words: Scriptural money, financial intermediaries, electronic cards, electronic services and products, banking system

Introduction

Short description of financial banking system in Albania

Economic – financial, large development of Albania, this last years, are reflected through the consolidation and increase of banking system in Albania. Commercial banking system, has increased its influence year after year, by entering to the most subordinate places in Albania. Increase of geographic coverage has accompanied a huge service usage and banking products, as result financial intermediaries has increased. Thousands of individuals, businesses, different private and public agencies, as result of banking system sector expansion in Albania, have provided a sustainable economic level increase. All this big growth process, all inclusive, has oriented their attention to e-banking. Nowadays, Albanian public, is not using banks any more just to invest their savings or to ask a consumers loan, but also to make liquidations of different monthly bill expenses that can be made without the necessary physic presence of banking consumer.

To this purpose, a special importance was oriented to the financial education of Albanian public by considering it, as a powerful instrument, to increase his comprehensive level, its nature, its complications, to its rights and obligations for the relation of the bank to consumers.

Financial institutions at developing countries, have to pay a special attention web banking because of its advantage, to convenience terms, flexibility and its competitiveness and more over to low costs. With this paper, we are trying to give a short description and measure the expansion level of e – banking in Albania and at locality level for Shkodra.

Second level banks in Albania are mainly foreign ownership banks, because of their pertaining part of the international banking net. Nowadays in banking market in Albania operate about 16 banks of second level from which 14 operate in Shkodra. From this banks, Credins bank has an Albanian ownership of about 65.7 %, Union Bank with an 83.3 % of Albanian ownership, and the last ‘Societe General Bank’ of 25 % Albanian ownership.

2. What is e – banking?

Different forms of e – banking services are world spread, through second level banks that are part of an international banking web. E-banking, known as electronic banking, foresees the spread of electronic products, in three main forms: ATM – Automatic teller machines, installed to the banking entrances, phone banking and internet (Mashhadi et al. 2007).

Referring to: Mishra and Kiranmai (2009), e-banking services include:

- 1. ATM** (automated teller machines);
- 2. E – payments** (Electronic payments) that operate through credit, debit cards or SMART cards etc, and from transferring funds via electronic ways;
- 3. Phone banking, mobile banking** – e –banking through mobile phone and **internet banking** - banking – through internet.

Turner (2001) describes the technology development of information that have reduced the elaborating cost of information. Internet has facilitated communication, making possible the advanced technology of banking services. Kohli (2003), admits that perfection of the technology for making business is not only the facilitator but a business leader.

Developed technology allows banks to get closer to the client, offering them a wide range of services at a lower cost, offering 24 working hours in banking net, improving internal systems of offering banking services, (Gates, 1997)

The impact of e – banking is not limited only for developed countries, but for developing countries also. Albanian banking system is not so developed but they do profit from the advantages of e-banking.

2.2 Banking system and Albanian history of e-banking

After the collapse of the economy system during 1990, made the Albanian economy pass through a controlled economic system

to an economy of the market free trading. This tremendous shock of the market made the beginning and then the expansion of a new banking system. From the beginning of the years of transition, Albanian governments were attracting foreign investments to create banks in Albania.

Unfortunately, the successful progress of banking system in Albania, was slowed from the collapse of pyramidal system in 1997. Banking stability was again established, and from this point the number of private banks went only growing up.

Bushati (2008) admits, that banking system in Albania supports and operates according to accounting international standards. Nowadays, financial sector in Albania is dominated from foreign banks.

Trading banks in Albania nowadays, offer the main part of banking standardized services such as: deposit accounts, crediting, issuing of letters of guarantee or letter credit, financial consultancy etc.

Year 2008, shows an increase in using of electronic products from banking consumers in Albania. The most folk electronic media are: personal computers and telephones. The number of ATM in branches is increasing because of usage increases of the card usage. Facilities in using internet are offered to expand transactions. The usage of micro-chips in credit and debit cards to reinforce the authenticity and authorisation of their usage, sign an important usage in e-banking. During 2008, eight banks offer e – banking products and electronics cards. (From report of central bank in supervising banking system.)

<i>Banks</i>	<i>ATM</i>	<i>POS</i>	<i>Internet Banking</i>	<i>Electronic Cards</i>
Raiffeisen Bank	X	X	X	X
National Commercial	X			X

Bank (BKT)				
Tirana Bank (Piraeus Bank)	X		X	X
National Bank of Greece (NBG)	X			X
Alpha Bank Albania	X	X	X	X
Procredit Bank	X	X	X	X
First Investment Bank (FIBank)	X			X
Credins Bank	X	X	X	X
Union Bank	X		X	X
Banka Popullore (Societe Generale)	X		X	X
Intesa Sanpaolo Bank, Albania	X	X	X	X
Italian Bank of Development (Veneto Banca)	X			X

Table 1. – Includes e – banking services that are offered from trading banks in Albania during 2008.

Referring to this table, e-banking services are increasing and improving from one banking to another. On the other hand, e – banking is closely related with the expansion of internet in Albania.

2.3. Statistics of internet and product penetration of e – banking in Albania.

Referring to statistics, internet was presented initially in Albania during 1991 from Soros Foundation for the communication with other branches and their central offices in Eastern Europe and USA. An increasing number of the users of internet was presented after the crisis, during 1997. Early years of internet in Albania, people were faced hardly to the poverty of the people, disconnection time after time, high costs,

low potential of purchase. Referring to Nune (2003), only a few private companies can use internet as a possibility for economic increasing. Referring to the users of internet offers in Albania, private companies, banks, government institutions, public schools and private schools and universities, non governmental organizations are the best users of internet. 1.5 % of the families in Albania are internet users. In urban areas, 33.7 % of fixed lines of phones are users of internet (INSTAT 2009)¹.

Referring to the usage of e – banking in Albania as per annual reports of Bank of Albania, number ATM and POS, has increased from 2008 compared to the year 2009, as shown in the table 2 – below:

<i>ATM & POS</i>	<i>31 December 2008</i>	<i>31 December 2009</i>
ATM (Automated Teller Machines)	642	741
POS (Point of Sale)	2,953	4,370

Table 2. Source: Central Bank of Albania – annual report of year 2009

The number of the cards during 2009, spread to the consumers is 566,985 – compared to 512,232 in 2008. Moreover, the table below shows that the number of debit and credit cards during 2009 is increased compared to the past year. An increasing of 50 % is from the credit cards. Increasing the number of credit and debit cards, increases the number of transactions in leke and foreign money in ATM and POS.

<i>Card Type</i>	<i>31 December 2008</i>	<i>31 December 2009</i>
Debit Cards	482,072	543,141
Credit Cards	15,931	23,844
Total Number of Debit/Credit Cards	498,003	566,985

Table 3. Source: Central bank of Albania – annual report during 2009.

As the table shows, the number of transactions through ATM makes about 96 % of the total of transactions. The table shows, of a high usage of the cash. During 2009, trading banks that offer services in the net is 10. This figure in increasing from

year to year, because all the banks in Albania have foreign property – making the net services.

<i>Home Banking</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
Number of transactions	42,447	88,261	136,482
Value of transactions	48,492	63,423	78,156

Table 4. E-banking transactions in Albania (Milion Lek)

Source: Bank of Albania – Annual Report 2009

2. Microeconomic – macroeconomic impact.

According to a study that, refers to official data of BERZH (Berzh 1994) it shows that the countries that have attracted great amounts of foreign investments, have reached a high grade of macroeconomic and politic stability and more over the increase trends are very favorable. These incoming countries try to have a better infrastructure, an improved legal system, a favorable team of working people and a high qualified foreign banking sector.

Exist many thesis and reasons that believe that IHD – can be favorable to economic and institution development of a country in transition.

Banking sector is favorable for these reasons (Levine 1997):

1. **First**, mainly in transition countries, the government play an important role and has a stronger presence in banking sector.
2. **Second**, a very poor legal infrastructure is common characteristic on economies in transition.
3. **Third**, in the first phase of transition, the potential number of the clients is very low, even though some markets have a promising future, in medium and long terms.
4. **Fourth**, many theoreticians have stressed the malfunction of the credit markets in an economy in transition. Specially, during the first phase of transition, the firms' liquidity was getting worse, as result of a continuous insufficiency of credit banking reimbursements.

Economic structure of the transition countries is very special, compared to developing economies.

Economies in transition have a developed industrial sector and a primitive financial sector, making a gap that brings insufficiency and malfunction of a market economy. As result, financial and banking sectors, are rebuilt again from the beginning.

2.1. The profits that takes an economy in transition from entering foreign banks in the market.

The profits taken from direct foreign investments in banking sector, become bigger in transition economies. As result, a possible improvement of the human resources because of a foreign management is especially important to economies in transition, where the necessary abilities for banking business are extremely small, especially in the first years of the transition period:

- Foreign direct investments in banking sector, at the beginning of the Albanian transition, the creation of a banking system of two levels has produced an internal oligopoly. The new entrance of foreign banks can reduce the power of domestic banks in some market niches. The entrance of foreign banks in the market, increases the competition, with lower banking commissions and improved services.
- Profits include new financial regulations. Foreign investments can influence in banking regulations and legacies adopting western standards of banking regulation and financial supervising.
- Foreign intervention can increase financial power of foreign banks through the capitalisation of domestic institutions and help in problem solving of the internal difficulties through purchasing banks with problems.

2.2. Adverse opinions for entrance of foreign banks in economies in transition.

There are many risks and costs that accompany the process of entrance of foreign banks in the host countries.

- The main reason, adverse the participation of direct foreign investments in the banking sectors in transition economies, is the frightening from the domination from foreign banks especially when the strategies of these banks is oriented at banking individual system.
- In some countries, mainly countries in transition, depositors have more trust in the guarantee that give foreign banks, giving domestic banks a signed disadvantage¹.
- In the first years of Albanian transition, foreign banks had difficulties in market entrance. This happened especially from the lack of information. As result the domination risk can happen in long-term periods, when domestic banks had enough time to concentrate at higher level of competition.
- Another argument is that the government, have the possibility to control domestic banks compared to foreign banks. Foreign banks adopt their economic politics, adopting to the regulations, laws and terms they have found in the host countries.
- Another term to be discussed focused to this matter, is capital absorption. The main risk of this regulatory market is that foreign banks can compete to local deposits and passing investments abroad the country, as result of tight influence to international financial community.
- The other reason, is connected to the portfolio structure, compared from foreign banks to domestic banks. In transition economies, foreign banks may have difficulties in evaluating the new private sector, mainly

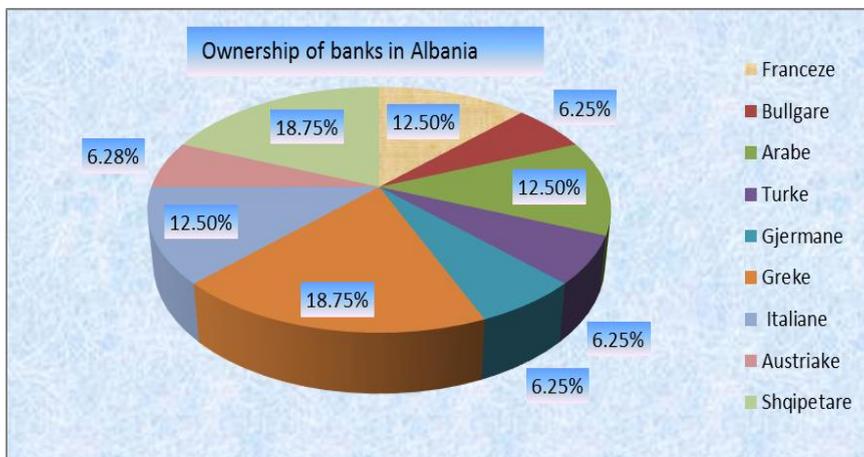
small enterprises, on the other hand foreign banks are most informed to multinational companies, more than domestic banks.

- Foreign banks, mostly involve at top managing levels – foreigners, which are strange to domestic habits and regulations of the host countries. At the lowest managing levels – you find mostly inhabitants of host country. This level diversification is not related to the capacities of top managers origin, but mainly to the strange behaviour that foreigners mostly show.

Nr.	Banka	Akcioneret	Pesha ne Kapital (%)	Pronesia	Origjine e Kapitalit	Origjine e Vendet	
1	Banka Raiffeisen	Raiffeisen International Bank-Holding AG	100	Private	E Huaj	Austri	
2	Banka Kombetare Tregtare	Çelik Financial Hizmetler A.S.	100	Private	E Huaj	Turqi	
3	Banka e Bashkuar e Shqiperise	Banka Islamiqe e Zhvillimit (IDB) Jeddah	55	Private	E Huaj	Institucion Nderkombetar	
		Shamili Bank of Bahrain	20	Private	E Huaj	Arabi	
		Malaysian Co Business Fokus	6.34	Private	E Huaj	Malajzi	
		Dallah Albaraka Holding	10	Private	E Huaj	Arabi	
		Saudi Brothers Commerce Co.	2.5	Private	E Huaj	Arabi	
	Individe	6.17	Private	E Huaj	Arabi		
4	Banka e Tiranës	Pireus Bank	96.7	Private	E Huaj	Greqi	
		Dafnili SA	1.3	Private	E Huaj	Greqi	
	Individe	2	Private	E Huaj	Greqi		
5	Banka Kombetare e Greqise (Dega Tiranës)	National Bank of Greece	100	Private	E Huaj	Greqi	
6	Dega e Bankes Alfa-Albania	Alpha Bank, Greece	100	Private	E Huaj	Greqi	
7	Banka Veneto	Veneto Banca Holding	100	Private	E Huaj	Itali	
8	Banka ProCredit	ProCredit Holding	80	Private	E Huaj	Gjermani	
		Commerzbank AG	20	Private	E Huaj	Gjermani	
9	Banka Nderkombetare Tregtare	ICB Holding AG	100	Private	E Huaj	Zvicer	
10	Banka Emponiki-Shqiperi	Emponiki Bank, Greece	100	Private	E Huaj	Greqi	
11	Banka e Kreditit te Shqiperise	3 Individe	100	Private	E Huaj	Kuvajt	
		10 Individe	65.77	Private	Vendase	Shqiperi	
12	Banka Credins	Bushati sh.p.k	4.74	Private	Vendase	Shqiperi	
		Emigres SL	4.15	Private	E Huaj	Spanje	
		BFSE Holding BV	22.17	Private	E Huaj	Hollande	
				Private -			
		SECO (SIFEM)	3.17	Shteteror	E Huaj	Zvicer	
13	Banka Popullore	Societe Generale	75	Private	E Huaj	France	
		9 Individe	25	Private	Vendase	Shqiperi	
14	Banka Union	Unioni Financiar I Tiranës	83.13	Private	Vendase	Shqiperi	
		EBRD	12.5	Private	E Huaj	Institucion Nderkombetar	
		2 Individe	4.57	Private	Vendase	Shqiperi	
15	Banka e Pare e Investimeve, Shqiperi	First Investment Bank, Bulgaria	99.9998	Private	E Huaj	Bullgari	
		Vitoshia Ventures AD	0.0001	Private	E Huaj	Bullgari	
		First Financial Brokerage House Ltd	0.0001	Private	E Huaj	Bullgari	
		Intesa Sanpaolo S.p.a	90.83	Private	E Huaj	Itali	
16	Intesa Sanpaolo Bank Albania	EBRD	7.78	Private	E Huaj	Institucion Nderkombetar	
		Shoqeria Italiane per Ndermarrjet e Huaja S.p.a	1.39	Private	E Huaj	Itali	

Table of most foreign banks that operate in Albania

In Albania are 16 banks that operate in banking sector, and the table shows that about 99 % of the banks are foreign direct investments from European or Asiatic banks.



Source: Bank of Albania

Conclusions and recommendations

4.1 Conclusions:

1. In the territory of Albania operate about 16 banks, which are mostly foreign financial institutions owned. From the list of banks make exception, Credins bank at 70 % of Albanian capital, Societe Generale Bank (ex folk's bank) at 25 % of Albanian capital, and the last Union bank Albanian at about 87 % of Albanian capital.
2. Other banks are owned by the international financial institutions. They bring in Albania their foreign experience and make business under Albanian Law and regulations of central Bank of Albania.
3. The top management of this foreign banks are generally foreigners that come to be part of the Albanian banking sector. Generally foreign banks in Albania, do not involve in top managements Albanian. They do justify

this action, to the ability of Albanians to communicate to the market, mostly in the lowest management levels.

4. Based upon the type of ownership, banks are part of three pertaining groups: banks state owned, common capital owned banks: both state and private ownership, and banks totally private owned.
5. During 2008, the capital of banking system, was included in important structure evolutions, which made the foreign owned capital very dominant.
6. Till the privatization of savings Bank, Raiffeisen Bank, the banking sector in Albania was made, mainly of state owned banks.
7. The foreign investments in Albanian banking sector, influence the way the deposits of Albanians are invested.

4.2 Recommendations:

In terms of recommendations:

1. The first, is connected to the possibility of involving Albanian inhabitants at the top management of the banking sector system.
2. A better definition of reporting and accountability is needed and as well the transparency in the deposit investments is required.
3. Especially for Albania, data show that compared to the last year, banking investments are increased over 36.3 % or in value are about 700 million dollars. This figure shows that banks have enough liquidity. Only for the last two years, according to the data of Bank of Albania, the deposits in banking system have increased at 1.5 milliard dollars.
4. Official sources from bank of Albania show that Albanian savings are not given in loans, to vitalize the Albanian economy, but foreign banks have invested them in their origin countries.

About three years ago, the index of deposit spread in loans was over 70 %. The index of loans\deposits in foreign currencies have decreased from 110 % to 75 %. This is related to the world's bank classification, which ranks Albania as the country with lowest financial intermediation in East- European countries, because the index of loans\deposits varies from 90 % to 120 %.

5. To solve this problem, Bank of Albania should be more hard in its regulations over the banking sector – specially to foreign owned banks. (As the last regulation Bank of Albania, that classifies banking investments abroad with the highest risk index – by forcing them, to keep reserves not invested for each Albanian money invested abroad)

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