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## **PROGRESS AND CHALLENGES OF ELECTRONIC BANKING IN ALBANIA**

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### **Abstract**

*A magic key for banking activity is to increase the types and diversification of the channels by providing banking services through e-banking. Developments and evolution in the field of technology and information have created new innovations for the banking industry enabling significant competitive advantages. These developments create more innovative products and services, adapting better to customer requirements and increasing the degree of efficiency in cost, speed, accessibility and security. The objective of this paper is to analyze the progress of the expansion of the main e-banking distribution channels for all commercial banks in Albania. The study period extends from January 2016 to December 2022. The study concludes that electronic forms of payment through banking channels have had a positive trend from year to year, culminating especially during the period of the Covid-19 pandemic, where the volume of transactions had the highest growth high of 72.15% compared to the previous year for online transactions and 34.62% for card transactions. The Covid-19 pandemic put a strong pressure on transition process from traditional to digital banking, which greatly shortened the transitory path of this transformation process. The main reason for the development of e-banking is related to the increase in the rate of internet use in Albania and the greater awareness of the public consumer.*

*Keywords: e-banking channels, banking technology, online transaction, banking services, banking policy*



## INTRODUCTION

The development of the Internet has contributed significantly to all areas of life. The most essential contribution was provided in the support during the pandemic period, in creating opportunities for the practice of professions to be carried out virtually through online platforms. (Bhatt & Bhatt, 2016) found that in recent decades, technological developments in information and communication provide a high efficiency for businesses in terms of costs, securing a significant competitive advantage in the market.

The development of information and communication technologies, the spread of telephones, the increase in the use of personal computers, but above all technological developments have challenged banks everywhere in the world in the use of distribution channels through internet banking. In order to better respond to the needs and demands of their customers, to maintain existing customers and to absorb new customers, banks have banking digitalization as an important part of their strategy.

The growth of electronic distribution channels affects the increase of transparency and the increase of internal competition between banks, exploring new geographical territories but above all reducing the level of costs.

The multi-channel strategy of banks consists in offering many alternatives for their traditional and new banking services to consumers. Depending on the size of a bank, a variety of electronic banking services are available to their customers. Large banks having larger capitals offer more opportunities and alternatives while small banks have more limited access and functions. Many studies have been conducted which highlight the main reasons why e-banking services are preferred, including speed of transactions, reduced waiting time, reduced costs, higher control over service delivery, more personalized services, giving of access to services that are not limited by time or place (Lee, 2009) (Montazemi & Qahri-Saremi, 2015).

Faced with the advantages that these new channels bring, banks should make their choice well-thought-out as this causes significant costs such as: costs for the purchase and installation of equipment and systems; technology re-update in order to guarantee the quality of service delivery according to the latest developments; employment of a qualified staff; security guarantee; maintenance cost; technical assistance; repairs of defects, etc.

Despite all the benefits, the degree of adoption of e-banking services is different in different countries. Mostly this is related to the level of economic and cultural development of countries. According to (Montazemi & Qahri-Saremi, 2015) consumers in developing countries have a slower rate of adapting these services.

The central focus of this article will be the investigation of the spread that electronic banking payment instruments have in Albania, in the context of banking digitalization during the years 2016-2022. More specifically, the study aims to analyze:

- The rate of spread and use of debit cards and credit cards during the period under review;
- Progress in the use of automated service equipment with limited access such as ATM and POS;
- Number and volume of online and card transactions;
- Electronic payment vs. paper form payment;
- The rate of spread of home and mobile banking.

## LITERATURE REVIEW

The evolution of the distribution channels of banking services started around the 1980s. The spread of mobile banking through the Internet appeared for the first time in the 1980s when the Internet began to be used at home (Cartwright, 2000). On the other hand throughout the 2000s there was a rapid growth of the internet banking almost all over the globe.

More specifically, in 1981 in New York, e-banking was spread in the main banks such as City Bank, Chemical Bank, Chase Manhattan Bank, but it was not successful due to problems with the video-text system. Banking companies in Europe and the USA began to implement the "home banking" channel. For the first time the application of internet banking was successfully spread in the USA in 1996 and further the main banks started to produce services for consumers in 2001 (Gefen & Straub, 2005).

E-Banking or "Internet banking" is defined as a way of providing banking services remotely using different distribution channels. In a more general way, it is considered as a summary umbrella with which a customer, whether an individual or a business, can carry out banking transactions electronically without the need for physical presence in a particular bank branch. Also, it enables customers to collect information on financial products and banking services through a public or private electronic network through Internet access (Kathi, 2013) (Vyas, 2012).

(Birch & Young, 1997) in their study concluded that the use of the Internet by banks can be a new distribution channel, thus reorganizing the banking structure. Internet banks (without physical presence) can serve as a serious threat to traditional banks since their activity is associated with lower costs, becoming very competitive in the market.

Despite very high expectations, virtual banks have not yet been able to become a serious threat to traditional banking, since many banking services require the physical presence

of a bank, the public's reliability is still low and their profitability is still far from the expected level. In his study (Sullivan, 2000), he concluded that Internet Banks have high expenses and income from fees making the profit similar to traditional banks. So, the use of the Internet as a distribution channel does not affect traditional banks.

(Furst, William and Nolle, & Daniel, 2000) investigated the effect of Internet banking on profitability and concluded that institutions with Internet banking have higher profitability than non-Internet banks. They also analyzed the spread of the Internet in products and services at national banks in the US. . Internet banks accounted for almost 90 percent of the national banking system's assets and 84 percent of small deposit accounts.

(Janice, David and Dennis, 2002) studied four banks in Hong Kong on the Internet distribution channel as a supplementary form to the other channels of ATM, telephone and bank branches. Among the most important types of transactions it was concluded that banking through the Internet is mainly used for securities trading.

(Lustsik, 2003) found that the implementation of e-banking brings considerable success to banks in Estonia. An important element of the future strategy for banks is related to the development of electronic forms of banking.

(DeYoung, 2005) analyzed the performance of internet banks between 1997-2001. The findings of this model identify factors why some banks have been able to implement the Internet model more successfully than other banks. Also, the results proved that Internet banks have a moderately low level of profitability. (Hernando & Niento, 2006) concluded in their study that the inclusion of the Internet as a distribution channel reduces overall costs in the Spanish banking market. The improvement of profitability indicators from the reduction of costs comes after a year and a half in terms of ROA.

## **METHODOLOGY**

The study relies on the qualitative interpretation of secondary data obtained from the official bulletins of the Bank of Albania and the Albanian Association of Banks for the period January 2016- December 2022. The reason why this period of study was chosen is related to the moment of the greatest spread of e-banking in Albania, including a delicate moment, the Covid-19 pandemic. The main goal is to analyze the rate of spread that the main forms of e-banking channels have in Albania, giving the relevant interpretations. The focus rely on statistical data for debit and credit cards, bank branches, POS, ATM, volume and number of online transactions, volume and number of bank card transactions, mobile banking.

## RESULTS

The Bank of Albania, as the main supervisory authority of the banking system but also the initiator and leader of the payment system, has taken a number of measures. Among its main objectives, during the year 2021-2022, was the realization of the action plan of the National Strategy of Small Value Payments (2018-2023). The main aim of this plan is to increase the use of electronic payments in the Albanian market and the continuous modernization of this market.

Throughout these years, many different legal and regulatory measures have been undertaken by the Bank of Albania in implementation of Law 55/2020 "On payment services" and in the context of promoting financial inclusion by economic operators. During the year 2021, the standardization process was continued, work was done with drafting of acts, which transpose the directive 2014/92/EU of the European Parliament, dated July 3, 2014, "On comparability/transparency for fees related to the payment account, and on the payment account transfer service and access to the payment account with basic services" (Annual Report, 2021).

To continue with a more detailed analysis of how electronic banking instruments were used in Albania during the years 2016-2022, are presented the following figures.

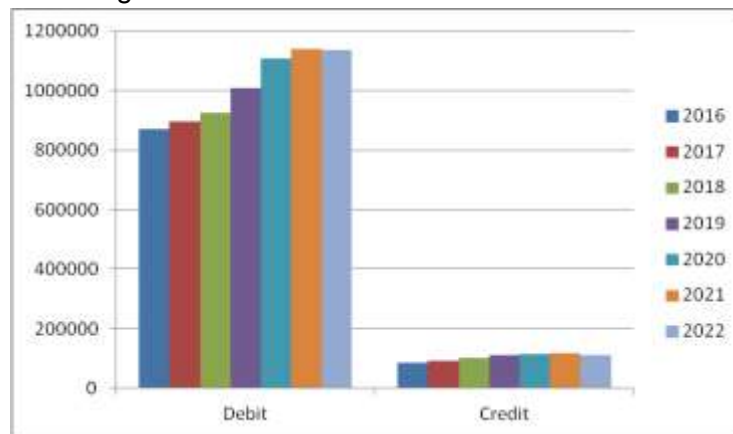
In the Republic of Albania, all operational commercial banks are licensed as card issuers, while 7 of them are also licensed as card acceptors. Card payments occupy the main place in the use of payment instruments, namely 55.57% in number, exceeding for the second year in a row credit transfers in paper form, the most used payment instrument over the years (Annual Report, 2021).

Figure 1 illustrates how the use of debit and credit cards has changed over the years. As it is easily ascertained from year to year the number of cards has been continuously increasing. This is addressed by the higher level of public awareness of electronic payment instruments, the increase in the number of ATMs and POS in cities other than the capital of Tirana. Although growing, the pace has been different over the years. It is evident that the highest growth has been in 2020 compared to the previous year of debit cards by about 10%, which is easily justified with the effects of the shutdown brought by the Covid-19 pandemic forcing people to use debit cards more for their payments. Also, during the year 2022, a slight decrease was noticed compared to the previous year, especially for credit cards.

Having the main goal of providing as many sophisticated services as possible in order to increase the satisfaction of banking clients by better serving their needs, banks have expanded the activity of providing banking services by increasing the number of POS and ATMs. This is illustrated in figure 2, where an increase from year to year in the number of devices with limited ATM and POS banking services is observed throughout the territory of Albania. The trend has

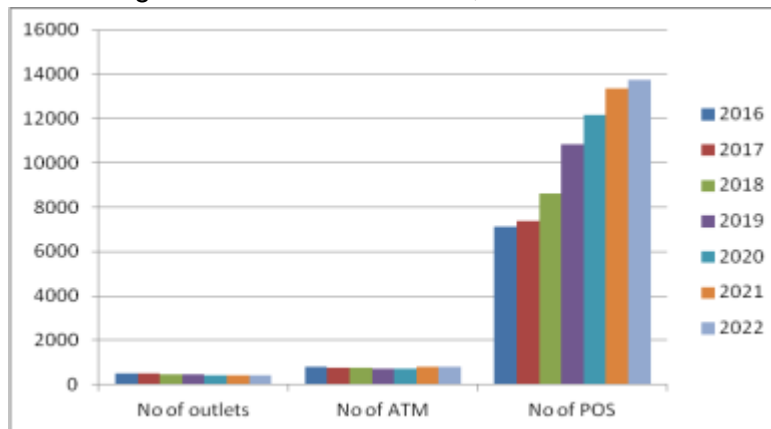
been upward, especially for POS, which until today have grown to have a wider range of banks that offer it. The highest level of POS growth is in 2019 with 25.9% against an increase of only 2.9% in 2022. While the interannual trend of ATMs has not been the same, since in 2017 and 2019 there is a decrease of 5.5% and 8.24% occurred respectively. While the highest level of growth was recorded in 2021 with 10.03%, and 2022 with an increase of only 1.23%. Although an optimistic situation for the use of cards, their use still consists mainly of cash withdrawals from ATMs rather than as a genuine payment instrument.

Figure 1: Number of Debit and Credit Cards



Source: Albanian Association of Banks (author calculation)

Figure 2: Number of Outlets, ATM and POS



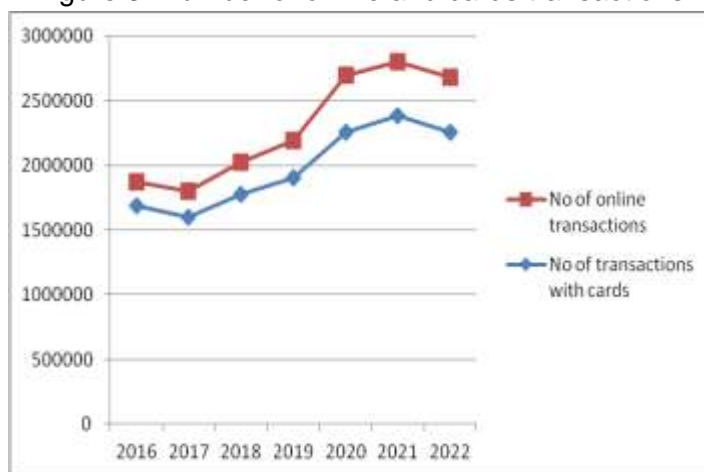
Source: Albanian Association of Banks (author calculation)

From 2018 to 2023, the number of commercial banks operating in Albania fell from 16 to 11 banks. This happened as a result of merger policies - acquisitions that banks made within the system with each other, reducing the number of operators. According to statistics in January 2022 (Institute of Statistics, INSTAT), the number of bank branches serving the population over

the age of 19 is 19.35 bank branches per 100,000 residents. This is among the lowest levels compared to other countries of the Western Balkans conditioned by a high concentration of the population in the capital and the largest cities, reducing the presence of banks in rural and distant areas.

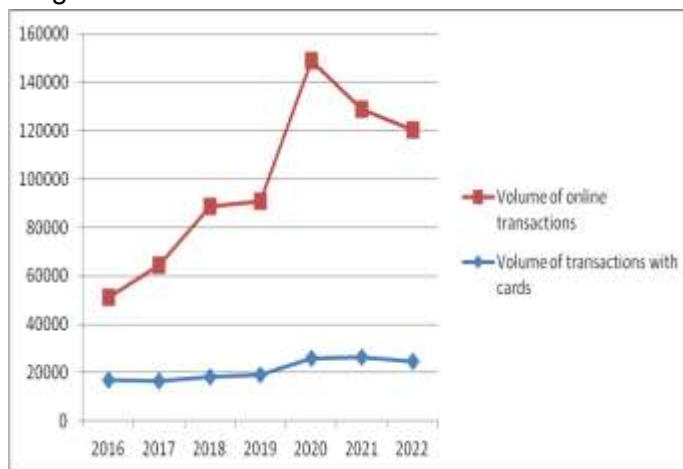
Regarding the number of bank branches, according to the official data of the Albanian Association of Banks, their number has continued to decrease until 2021, where a positive increase was recorded for the first time and continued throughout 2022. The deepest decline was in March 2020, where 26 bank branches were closed within one month, a moment which also corresponds to the spread of COVID-19 in Albania. The process of digitization of banking services makes the physical presence of banking units less and less necessary, as many services can now be accessed remotely from banks through internet/mobile banking platforms.

Figure 3: Number of online and cards transactions



Source: Albanian Association of Banks (author calculation)

Figure 4: Volume of online and cards transactions

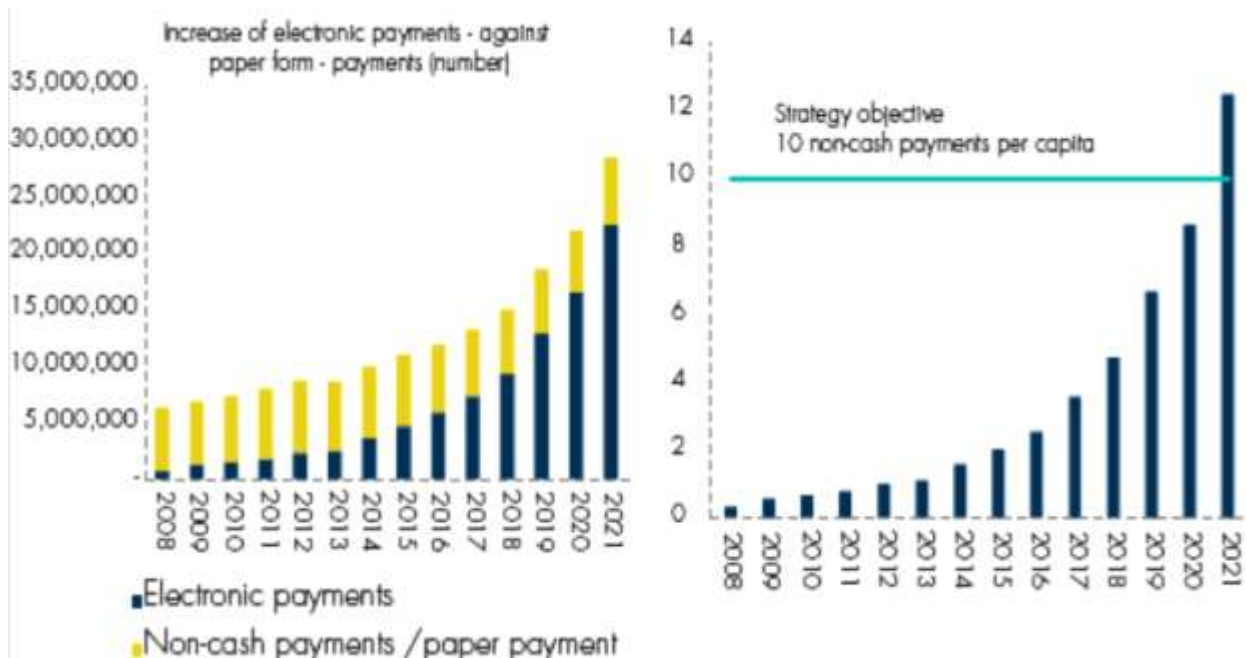


Source: Albanian Association of Banks (author calculation)

In figure 3 and 4, it is easily evident that online transactions both in number and value are higher than those through cards. The trend has been upward until the beginning of 2021 and then followed a slower growth rate until the decline throughout 2022. The highest peak was reached in 2020 with a 52% increase for online transactions and 18.6% for transactions with card from the previous year. The effect of the Covid-19 pandemic contributed deeply to the use of remote forms of payment. This is also reflected in the volume of transactions, which culminated with an increase of 72.15% in 2020 compared to the previous year for online transactions and 34.62% for card transactions.

Electronic payment instruments had a significant increase throughout 2021 with 20.62% compared to last year and 5.291 billion lek increase in value. This increase is attributed to the replacement of payment forms with each other, therefore there was a continuous decrease in transfers in paper form which reached a weight of 20.65% of the total payments (Annual Report, 2021) (Annual Report, 2021). Developments in the field of electronic payments throughout the year 2021 have managed to fulfill for the first time the objectives of the National Strategy of small value payments in Albania. More specifically, the strategy requires the use of electronic payments at the level of 10 payments per capita, while the current level reached 12.5, surpassing this target. This is also shown in Figure 5 below:

Figure 5: Electronic payment vs. paper form payment (left);  
electronic payment per capita +15 years (right)



Source: Bank of Albania



In the Albanian reality of developments in the field of electronic money, it is worth highlighting the trend of increasing payments through home banking. There was a 24.5% increase in the volume of payments through home banking compared to the previous year. Also, until 2021, the value of transactions through mobile banking marked a significant increase of 47.36% compared to the previous year (Annual Report, 2021).

The main reason for these increasing rates is attributed to: first, the important role played by the Bank of Albania; secondly, the promotion and education of banking products for their customers by commercial banks; third, the growth of remote bank accounts; fourth, higher internet access.

According to the Governor of the Bank of Albania (Gent Sejko, 2022), in 2012 about 96% of transactions were carried out in paper form at bank counters, while in 2022 79% of payments are carried out through remote channels together with banking cards and only 21% in branches.

## CONCLUSIONS

E-Banking is a service offered by all the banks of the Albanian system, which enables the provision of the innovative distribution channels of banking products, giving innovation against the form of traditional banking. In the conditions of a rapid process of globalization, dealing with developments in technology and information have offered the banking industry the opportunity to use new alternatives, gaining important competitive advantages. These developments have enabled the creation of more innovative products and services, adapting better to the demands of consumers and increasing the degree of efficiency in cost, speed, accessibility and security. One of the main objectives of Albanian banks has been and remains electronic banking.

The process of digitization of banking services makes the physical presence of banking units less and less necessary, as many services can now be accessed remotely from banks through internet/mobile banking platforms. Many banking services that around a decade ago could only be accessed through the presence of physical branches, today through new channels can be obtained from remote internet/mobile banking.

Although the Albanian economy is still focused on the massive use of cash in making payments, the study shows an optimistic upward trend in the rate of use of the innovative forms of e-banking, both in the volume of transactions and in the number of them from year to year. This is seen as a positive signal that these forms will have in the future, reflecting the increase in the level of awareness of the Albanian consumer on the advantages offered by electronic forms of payments through the Internet or automated banking devices.

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The physical presence of commercial banks cannot lose their traditional basic function, but new forms of providing banking services offer a variety of alternatives that contribute to increase the efficiency and the satisfaction for customers. The Covid-19 pandemic put a strong pressure on the transition process from traditional to digital banking, which greatly shortened the transitory path of this transformation process. The main reason for the development of e-banking is related to the increase in the rate of internet use in Albania and the greater awareness of the public consumer. Besides the challenges for the future, the reality appears promising and optimistic for their growth even more in the future.

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