ECRI Workshop

Integration of Retail Banking in Europe: New Technologies – New Opportunities?

Minutes

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New technologies change retail banking. For consumers, they allow the conduct of financial transactions regardless of time and location. For banks, information technologies improve productivity and revenues. The technological developments over the past decades have opened the horizon for wholly new services and distribution channels. Mobile and online banking are recording rising numbers of users across European Member States. Innovations such as e-money and electronic wallets could pose new problems for regulators and open opportunities for non-bank institutions to offer financial services. These developments will affect competition in banking as well as the integration of the European consumer credit markets. In this workshop at the **EUROPEAN CREDIT RESEARCH INSTITUTE**, we discuss the latest technological developments in retail banking as well as their implications for regulators and consumers. Together with policymakers, industry officials and consumer advocates we discuss the challenges, risks and chances of technology adoption in the perspective of integration of retail banking services across Europe. For further information: www.ecri.eu.

The Chief Executive Officer of the Centre for European Policy Studies (CEPS), **Karel Lannoo,** opened the workshop and welcomed all participants on behalf of CEPS and the European Credit Research Institute (ECRI).

Dr. Nicola Jentzsch (Head of Research of ECRI) welcomed and introduced the participants and stated that new technologies could possibly overcome some of the obstacles to the integration of European credit markets. For this matter, they would be worthwhile to discuss. **Ann Börestam, Senior Expert on Payment Systems and Market Infrastructure of the European Central Bank**¸ gave the first presentation of the afternoon on new technologies and the payment market. As today's payers are more than ever mobile, less dependent of location, time and bank branches, new payment instruments such as mobile payments, e-money and internet banking experienced further growth. In addition, the rise of new actors (e.g. mobile operators or public transportation companies) offering payment services could be witnessed. Given the existence of 27 different legal contexts, **Mrs. Börestam** argued that harmonisation and standardisation were

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to be regarded as core issues for innovation and competition. The speaker thus provided a general overview of both the concept of Single Euro Payments Area (SEPA) and the Payment Services Directive (PSD). As further deepening of SEPA was needed, the speaker encouraged the European Payments Council (EPC) to continue its work on issues like SEPA online payments, electronic mandates and mobile payments.

In the following presentation, **Dr. Thomas Meyer, Economist of Deutsche Bank Research, eResearch**, presented insightful findings from research conducted on the characteristics and drivers of online banking in Europe. Having econometrically analysed close to 40.000 observations between 2002 and 2005, **Dr. Meyer** stated that roughly 80% of the variance of the use of online banking could be explained by per capita GDP and latitude: online banking increases from poorer to richer and Southern to Northern countries, with typical early adopters being young, affluent, well educated and male individuals. While better and faster internet connections drove online-banking adoption, the influence of perceived security on the decision to use these services was paramount and growing: the probability of an individual using online banking was – ceteris paribus – 5.5 percentage points higher if he/she considered online banking to be more secure (based on a scale from 1, not secure, to 10, secure). A further finding of the research suggested a strong correlation between online banking clients and loyalty towards their bank: using online banking boosted the probability to consider the main bank for the purchase of an additional financial product by 14 percentage points, other things equal. **Dr. Meyer** subsequently pointed at the Internet as being a driver to greater price transparency leading to greater competition and a decrease of the profit margins of standardized products. In addition, he stated that the creation and promotion of emotional products did not guarantee retention and no greater customer loyalty, as owners of premium credit cards were just as price sensitive as all other customers.

Dr. Tommi Laukkanen, Department of Business and Management of the University of Kuopio, Finland, discussed about the development of internet banking and mobile banking in Finland. According to the Federation of Finnish Financial Services, 67% of the Finns consider Internet banking as their primary bill-paying method, which – as opposed to the use of branch offices, direct debit or payment via Automated Teller Machines – over the last 14 years witnessed "phenomenal growth". Mobile banking, however, is still in its infancy. Despite the potential advantages such as time savings or the independence from the individual's location, the low penetration of mobile banking technology could be attributed to several reasons, including complexity of use, perceived costs, lack of relative advantage and security concerns. Referring to his studies **Dr. Laukkanen** stated, however, that risk perceptions were rather derived from information input and output mechanisms (e.g. making mistakes when typing in long account numbers,) than actual concerns of the data security . The results of his research (analysing 2.060 responses for Finland and 3.852 for Portugal) also revealed a less resistant attitude among Portuguese than among Finns towards the adoption of mobile banking, suggesting possible implications of culture on the adoption of technologies.

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In the last presentation of the first panel, **Guido Mangiagalli, Head of New Channels, Department of Innovation and Acceptance of Visa Europe**, presented the London rollout of Visa's new contactless payment solution, Visa payWave, which allows consumers to make payments for amounts below €15 by simply waving the card in front of a reader . This payment method is secure, fast and convenient as no PIN code or user authentication is needed. The necessary security measures have been put in place limiting the number of consecutive contactless transactions that can take place without PIN authentication. Once this number is exceeded, a PIN will automatically be requested, regardless of whether the transaction is below €15. According to APACS, the UK trade association for payment, it is estimated that by the end 2008, five million cards would have been distributed and be accepted by 100.000 merchants. In addition, the company's efforts to establish a platform offering mobile payments and services has also been introduced, reaching from already existing contactless payments to person-to-person transfers in the future.

Dr. Yoonhee Tina Chang from the School of Management, University of Bath, UK, started off the second panel of the workshop with findings from research on trust and internet banking in Korea. After identifying intangible benefits and motivations (such as family and friends' advice, reduced transaction costs and increased speed of service) as the dominating drivers of adoption of internet banking, **Dr. Chang** pointed at security risks as being the main hurdle between internet banking and the customer. According to her survey in Korea roughly 48% of the respondents named issues of costumer authentication, responsibility for user negligence and online fraud to be the principal reasons for reservation towards online services. Interestingly, satisfaction with conventional banking was another frequently stated reason (about 37%) for non-adoption. In addition, **Dr. Chang** stated that internet banking "enhanced and modified traditional banking risks" (such as strategic, operational, legal and credit risks, among others), for the reason of which the generation of *trust* was of greatest importance. As trust typically depends on the individual characteristics of a customer, a specific situation and the amount of information gathered by the individual, various approaches aiming at boosting customer trust are to be taken into consideration. Whereas not much can be done to make a person an inherently more trusting individual, more frequent communication and the provision of *more and better* information (possibly enforced by rules and regulation) could help stimulate customer trust. The speaker also saw the need to assess how technological change could appropriately be incorporated: the dependence on third party IT providers and the integration of internet banking into the bank's legacy system were mentioned to be an issue of concern. According to **Dr. Chang**, the regulation and enforcement of the provision of both the right quantity and right quality of information remained the future challenge of regulatory authorities.

In a short intervention, **Dr. Laukkanen** listed both the convenience of paying bills at home and the control of the pay day as two additional main reasons for costumers' adoption of internet banking. **David Reese, Provident Financial, a consumer credit association**, stated that it was the "role of the government to generate trust in the financial system", such as introducing rules as regards the maximum customer liability in case of misuse of these services. Subsequently, Penelope Naas from Citibank stated that despite the introduction of new technologies, older products or technologies do not seem to be retired accordingly.

Frank-Christian Pauli, Policy Officer for Banking and Financial Services, Federation of German Consumer Organisations, gave the last presentation of the workshop. He pointed at three issues to be of importance with regard to the introduction of new technologies, all of which needed to be appropriately addressed in order "not to shift too much or too little responsibility on consumers": the provision of *comprehensible* information, consumers' *choice* of adopting or not a new service as well as guaranteeing *security* of new products.
According to **Mr. Pauli**, these concepts are to be considered complementary to more general issues such as good service, responsible lending or cost transparency. Subsequently, the speaker addressed the written and paper-based form of contracts – as opposed to credit via Internet or mobile banking – as indispensable for the provision of comprehensive credit information. The results of a survey showed that the most informed customers were those who had to print out the contractual provisions, as the contract had to be closed in written form due to legal provisions. Concerns were also raised about "non-transparent" scoring methods which according to **Mr. Pauli** classified customers as bad risks despite them merely "shopping around". Such scores would then not reflect appropriately the real financial situation. He argued that scoring should merely be considered a "quick test" to be restricted in its use. A way to check up on the accuracy of the criteria used by a scoring to consider the creditworthiness of the individual consumer should be at hand. Finishing his presentation, **Mr. Pauli** redirected the attention to necessary security provision to be implemented. Identifying the consumer as the "weak spot in the chain", the offered security measures needed to be adequate to block the current attacks as well as "easy to understand, easy to be remembered and easy to be practiced" in order to properly protect costumers against the misuse of new technology services.

Referring to the previous presentation of **Dr. Chang**, the issue of customers *trust* was to be regarded as essential which, according to **Mr. Pauli,** the industry was able to establish by guaranteeing "that everything possible will be done to prevent any harm". He assumed that in the long run for consumers more trust is to be laid in the ability to act in case of a security issue than in "unbreakable" systems.

In a short final workshop discussion, **Monica Monaco, Visa Europe**, mentioned the results of a recently conducted survey which revealed that while consumers were in favor of a certain necessary number of security measures, they did not want them to slow down the payment process too much. The workshop was concluded by **Dr. Nicola Jentzsch**, who thanked the participants for their contributions.

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