ALTERNATIVE DISTRIBUTION CHANNELS IN THE BULGARIAN BANKING INDUSTRY: ANALYSIS OF THE STATUS AND MAJOR DEVELOPEMNTS

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Abstract
The business landscape for banks is changing reflecting the vast and rapid shifts in technology. Only ten years ago it was unthinkable to almost everybody that banking will be done through mobile phones, not to mention devices which did not exist at that time such as tablets and ultra slim laptops. Technology revolution is shaping consumer preferences and habits. In order to be in a position to keep existing and to attract new clients, banks need to revolutionize themselves adapting to the habits of customers. The traditional way of doing banking – at the physical branch is being challenged by the mobile devices connected to the internet. Banks have started shifting to offering as many more as possible services through the internet. Despite the fact that the physical branch still remains the dominant channel for delivery of banking services, it will have to share its future with virtual branches and other delivery channels, such as mobile phones, ATMs, internet banking, collectively known as alternative distribution (or delivery) channels (ADC).

The aim of the current paper is to examine ADC practices of some of the major players on the Bulgarian banking market and to put forward an analysis which is the most appropriate structure that the organization needs to have in order to accommodate best the new services.

Key words: *alternative delivery channels, banking services, mobile banking, internet banking*

INTRODUCTION

Since its inception the commercial bank has been called to serve the needs of society for capital covering various areas of its existence at all layers – households, firms, state. The ultimate goal of commercial banks has not changed neither through time, nor though space. The means to achieve it, however, have been evolving during the ages with the latest 30 years seeing the most dramatic alternations ever in banking history in terms of technology and possibilities to access new markets.

The thesis of the current paper is that in order to be successful, modern commercial banks need to be adapting fast to the new technology in order to be in a position to reach the customers in ways the easiest and the most convenient for the latter. If in the past it was the customer who was approaching the bank at the points of sale, now each bank needs to ensure that the customer can reach it anytime from anywhere. Otherwise competition will do so first. This change of the means of achieving the goal for the banks represents a dramatic innovation. In order to achieve its goal in the current highly fluid and volatile situation, commercial banks need to transform themselves into organizations providing services in a multichannel way.

1. DISTRIBUTION CHANNELS IN BANKING – AN OVERVIEW

Banking in the modern world is using various channels for the distribution of the services that it is offering. All these channels serve as connection for the customer to the staff of the bank who facilitates transactions and other services. With the development of technology new distribution channels are appearing. This is making the job for banks more and more complicated as they are forced to be able to offer their services while constantly adjusting to the new ways of doing business. Each distribution channel has its own specificities in terms characteristics, costs, strategy, time needed for the processing of transaction, management of its operation. Sustaining quality in a fluid multichannel environment poses a number of challenges for banks in terms of operations management, marketing, sales, defining the right strategy per channel and for the mix of channels as a whole along

with the ongoing technological race. Below the main channels currently in use in the banking industry are discussed in brief.

1.1. Physical branches

Physical branches are the oldest points of sale for banks. These are the outlets at which customer have the opportunity to meet staff, obtain information, discuss their needs and do transactions. Branches have been dominating the industry for many years due to the lack of advancement in technology. With the advent of the internet and the mobile devices, their role is diminishing. According to some experts, the branch is banking's new alternative channel (Maours, J, 2013). Despite this fact, to date they still remain the dominant distribution channel for banking services across the globe.

1.2. Automated Teller Machines (ATM)

The ATM is the first alternative distribution channel that appeared in banking industry. An automated or automatic teller machine (ATM), also known as an automated banking machine (ABM), cash machine, cashpoint, cashline or hole in the wall, is a computerized telecommunications device that enables the clients of a financial institution to perform financial transactions without the need for a human clerk. Estimates developed by ATM Industry Association place the number of ATMs in use currently at over 2.2 million, or approximately 1 ATM per 3000 people in the world (Atmia, 2013).

In order to use an ATM, the customer needs to be identified by the machine. This happens when inserting a plastic card either with a magnetic stripe or a plastic smart card with a chip that contains a unique card number and some security information - expiration date or CVVC (CVV). The customer needs to enter a personal identification number (PIN) in order to be authenticated by the ATM. The newest ATM at Royal Bank of Scotland operates without a card to withdraw cash up to £100 Schlichter, (BBC News, June12, 2013).

Originally, ATMs were used for cash withdrawals including withdrawals in currencies different from the ones in which the bank accounts are (Schlichter, Sarah, 2013). The number of services provided through ATMs has been expanding. Currently it is possible to deposit money on machines which do not belong to the bank at which the customer has his or her bank account. Also, the bank of the customer could be in another country. Examples of interbank networks implementing such transactions include NYCE, PULSE, PLUS, Cirrus, AFFN, Interac, Interswitch, STAR, LINK, MegaLink and BancNet. Where there is fully fledged cross-bank ATM network, many other types of transactions are possible to take place though ATMs, such as:

- Payment of bills, taxes, social security, legal fees, etc.
- Receiving bank statements form the ATM
- Changing passwords of the cards
- Purchasing of a variety of services such as train, movie, concert tickets, postage stamps, shopping gift certificates
    - Purchasing gold
    - Making donations
    - Processing of cheques
    - Transferring money between linked accounts (Lynn, Matthew, 2011)

For the last 10 years banks have been trying to use their ATM networks for loan sales and marketing purposes (Creativematch, 2005). Currently in Bulgaria all the major banks have ATMs both onsite (i.e. installed at branches) and offsite (i.e. standalone at various points where the flow of people is considered significant).

The advantages of the ATMs for the customers in Bulgaria are primarily linked with the possibility to withdraw cash and to a lesser extent the possibility to pay utilities and installments for credit cards and transfer amounts from one account to the other. This is evident from the fact that far from every ATM in Bulgaria has the functionality to deliver the full scope of the above mentioned services but is used as a point of access to cash in the first place. This usage of ATMs in Bulgaria can be explained in two ways:

- The still developing POS network which makes customers be forced to keep cash with themselves in order to be able to pay for the goods and services they are using
- The other reason is the traditional way of thinking of the society where cash is viewed as being far more secure than cards and people oftentimes prefer to withdraw at once all the money they can so they feel secure

Both the above arguments are valid with more strength for the countryside where POS network is less developed and people are poorer, the latter urging them to keep the small amounts they have in cash to meet imminent needs. And last but not least, in the period after the collapse of the communist regime in 1989 it was considered a matter of prestige for the leading banks to build ATM networks since this manifested financial strength and readiness to be close to the customer. Thus, especially in the first years when the ATMs started being used customers were being offered debit cards by the banks which they used only to withdraw cash from ATMs.

1.3. Online banking (E-banking)

Online banking (or Internet banking or E-banking) appeared approximately 20 years ago and is seeing a strong growth especially in the last 10 years. It is the becoming the preferred choice for an increasing number of customers since it provides them with a convenient way to access bank services 24-hours a day. A survey done by the American Bankers Association back in the end of 2009 reveals that some countries prefer the instant access to online account information and transactions to that offered by traditional banking (Kohali, Adi, Sheleg, Adi, 2011). In order to use online banking the customers need to register with the bank for the services and set up a unique password which will give him them access to their accounts and to the ability to do transactions. Currently all the major banks in Bulgaria provide e-banking services, even online sales to facilitate the customers. A number of banking experts are predicting that online banking will keep on improving in the near future offering more and more possibilities for customers. This, however, will require banks to invest significant amount of resources in technology in order to keep the pace of consumer demand, which will be a difficult task for smaller organizations, especially in times of crisis (Marous, J, 2013).

1.4. Telephone Banking (Telebanking)

Telephone banking gives the ability to the customers to access their accounts via telephone line upon proper identification which follows a number of concrete predefined steps. In order to offer this service, a bank needs to operate a call center with staff specifically trained to manage customers' preference over the telephone. The first such call center was launched in the USA back in 1983. Technology revolution facilitates the sophistication of the service with it being offered by automatic reply service (IVR) incorporating voice recognition systems. Most of the call centers however keep on sustaining human interaction, especially when it comes to doing transactions (Kohali, Adi, Sheleg, Adi, 2011).

1.5. Mobile Banking (M-banking)

Mobile banking is among the newest distribution channels used by the banking industry. It represents the types of services accessibly through mobile devices – mobile phones and tablets through the internet. Mobile banking is growing rapidly matching customers preferences and the readiness, especially of the young generation to do business and personal transactions online.

In a report released recently by Juniper Research entitled, 'Mobile Banking: Handset and Tablet Strategies 2013-2017', it was estimated that more than 1 billion mobile phone users will have used their device for banking purposes by 2017. In addition, it was projected that more banks will have

multiple mobile offerings, maximizing customer penetration potential. Data for 2013 have proven many of these predictions (Marous, J, 2013).

Apart from the above mentioned delivery channels, other types are emerging as well such as social media, branchless banking and mobile phone branchless banking. To date, their importance is emerging but not as prominent as the one of the channels discussed above.

2. ADC IN SELECTED MAJOR BANKS IN BULGARIA

The recent analysis of the Bulgarian market shows the following distribution of alternative channels usage among key players.

Table 1. ADC in Selected Major Banks in Bulgaria

Bank	E-Banking	M-Banking	Phone Banking	ATM
Postbank	v	~	v	v
Unicredit Bulbank	v	v		v
DSK	v	v	v	v
Raiffeisen	v	~		v
UBB	v	~	v	v
FIB	v	v	v	v

~ M-banking partial services

Source: Internet sites of the analyzed banks

The analysis shows that all of the banks under review have developed e-banking services and are utilizing ATM network. As regards m-banking, only half of them – Unicredit Bulbank, DSK and FIB have launched a fully fledged service with Postbank, Raiffeisen and UBB having it only partially developed. As far as telephone (phone) banking is concerned, four of the banks – Postbank, UBB, DSK and FIB are offering the service. Raiffeisen and Unicredit have not developed it, primarily due to consideration related to its relevance in view of the upcoming overwhelming importance of m-banking.

As far as the positioning of the units dealing with alternative distribution channels is concerned, the analysis shows that there is no single model that is followed. The banks that have been analyzed have chosen different structure accommodating existent resources. Thus UBB, FIB and Raiffeisen have ADC related functions combining Operations and Business sector responsibilities. Unicredit Bulbank and DSK are having ADC functions in both the Operations and in the Business sector of the organization. Postbank has its ADC function fragmented, the responsibilies being shared between Operations, Business and IT sectors.

Which model is the correct one? Which model is expected to bring the most benefits to the organization in terms of efficiency and profits?

Table 2. Organization of the ADC in the Six Major Banks in Bulgaria

Bank	ADC Combined Business & Operations	ADC Business Part	ADC Operations Part	Fragmented
UBB	v			
FIB	v			
Raiffeisen	v			
Unicredit Bulbank		v	v	
DSK		v	v	
Postbank				v

Source: Internet sites of the analyzed banks

3. ADC OPERATIONAL MODELS

In order for the ADC to be unfolded and to follow a streamlined strategy, it is very important the bank to choose the right organizational structure which to accommodate it. There are several options to position the ADC unit within the bank. Each of them has its pros and cons.

Option 1: Positioning ADC unit under Operations & IT Division.

The most important characteristics of this choice are described below:

- The unit will be headed by an experienced executive who has the overall responsibility of the ADC section
- Strategy definition and implementation emanating from the unit itself; development of ADC is the main reason of its existence, not a side-show
- Close and effective cooperation with Network Division and the branches but also “healthy competition” in place
- Insured vertical integration of the unit’s functions in the sense that business development, customers support and daily operations are provided by the ADC own resources
- Allowing for the revenues of the ADC unit to be calculated at VBM level and thus to practically impact branches’ P&L
- Improvement of efficiency of operations through close cooperation with the rests of operative units. This will ensure improved customer experience

Option 2: Positioning of ADC unit under Network Division

- The unit will be ultimately leaded by an executive with experience who has the overall responsibility of the ADC unit
- The ADC unit supports branches targets; branches constitute a key part of the ADC strategy.
- Allowing for the revenues of the ADC unit to be calculated at VBM level and thus to practically impact branches' P&L

Option 3: Positioning of ADC unit as another separate Division

- Headed by an experienced executive participating at executive committee or board level
- Strategy is defined and implemented at the unit itself
- Close and effective cooperation with Network Division and the branches but also "healthy competition" in place
- Vertical integration of the unit's functions in the sense that business development, customers support and daily operations are provided by the ADC own resources
- Allowing for the revenues of the ADC unit to be calculated at VBM level and thus to practically impact branches' P&L

In order for the strategy and operational implementation to be unfolded successfully, Alternative Distribution Channel unit should be responsible for all channels and electronic services offered by the Bank (e/m-Banking, Phone Banking, ATMs channels as well as B2B services) across customer segments (Retail, SBB, Corporate etc.). Spreading the various fucions – SBB, retail, etc. in dfferent divions will lead to fragmentation of efforts and this will bring decrease in efficiency.

The centralized unit should be responsible for driving the design of innovative electronic services and solutions and also for the:

- Design, business development and support of electronic products and services (banking and non-banking)
- Management of the Bank' online presence and digital marketing actions
- Promotion of electronic products and services of the Bank across available media
- Centralization of the ownership and accountability across electronic channels and services will:
    - control in a seamless manner a common multichannel strategy aiming to enable the delivery of an integrated set of services to customers while at the same time achieve cost efficiencies and increased revenue streams for the Bank.
    - ensure the proper adaptation of internet service capabilities, providing customers integrated management of their bank relationships and transactions.
    - facilitate the offering of combined packages of products and services (bundling)
    - aggregate the monitoring of technological and operational developments and electronic behavior trends aiming to adopt effective solutions which improve service quality and reduce transaction costs
    - creates value by providing B2B services (i.e. e-payments, floorplan schema, e-marketplace, e-catalogue, e-auctions and e-invoicing bundling)
    - establish an in-house expert center benefiting from economies of scale created in both resources and operations management

The alternative channels integration should encompass the following:

- Integrate all existing alternative channels under a unique business unit
- ATMs, APSs, e-banking, m-banking, Phone-banking/Call Center to be integrated into a new Alternative Distribution Channels business unit
- The new unit to define & implement the ADC business strategy targeting the increase of the customers' transactions through the bank's alternative channels and the reduction of the transactions costs to the bank's benefit
- The new unit to share a common already existing infrastructure, which will evolve in sync for all channels following the "develop once, use many" approach, hence achieving economies of scale.

The organizational positioning of the various functions under ADC is presented in the exemplary organ chart below (Fig. 1). The underlying idea is the functions in ADC to be divided in three parts: E-/M-Banking, Phone Banking (IVR, Call Center) and ATM/APSs. Each of the three functions is being supported by relevant units within the ADC structure. These units for the three functions are the same and are the following:

- New services development and marketing,
- Operations and support and
- Sales support

This is needed as each of the three segments of ADC has to develop these three subareas within itself. The target operating model is based on centralization and consolidation of business and support functions, across channels. Looked from another angle, the ADC structure is covering three types of activities:

- Customer service
- Channel and services development and
- Operations

As shown in the figure above, customer services incorporates channels' sales support, customer service/sales and the level of service. Channel & Service Development includes new services development and marketing, new services and network development and development. Operations encompasses back office and operations, and operations and security monitoring. Or, put another way, the ADC integrates the identification, development and marketing of delivery channels in order better customer service to be provided, the development of the relevant network and service and the operational part of all these activities – back office and security of transactions.

Figure 1. ADC Centralized Structure Enabling Unified Commercial, Operational and Support Approach

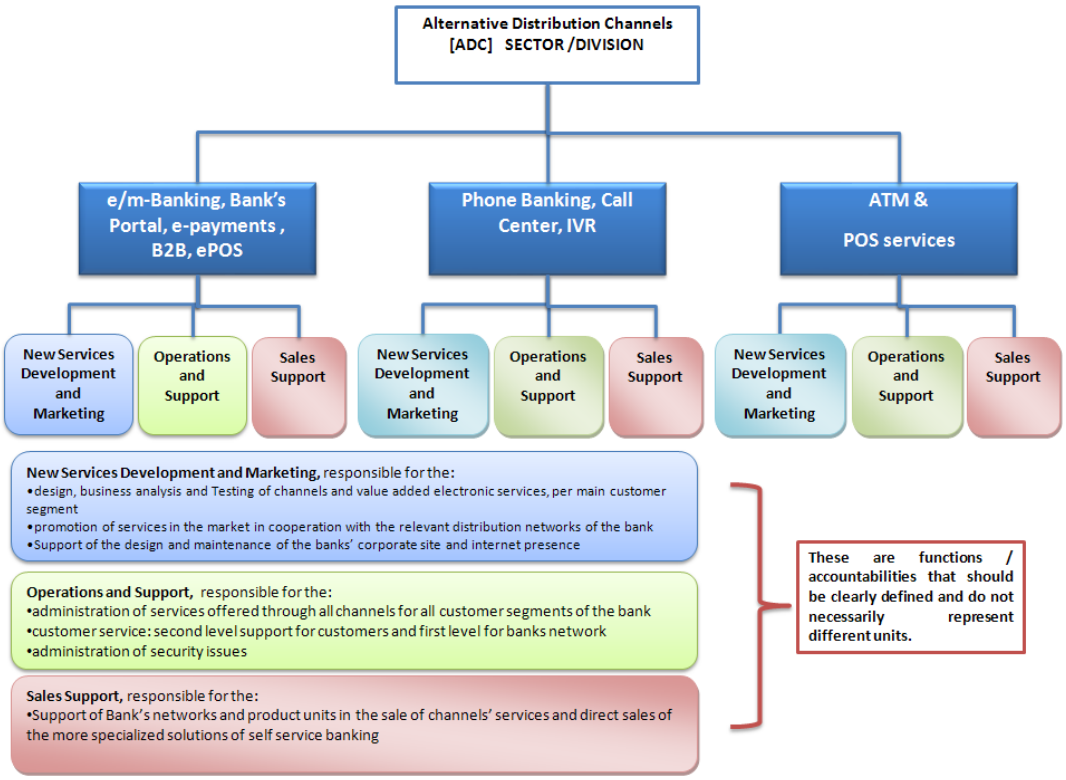
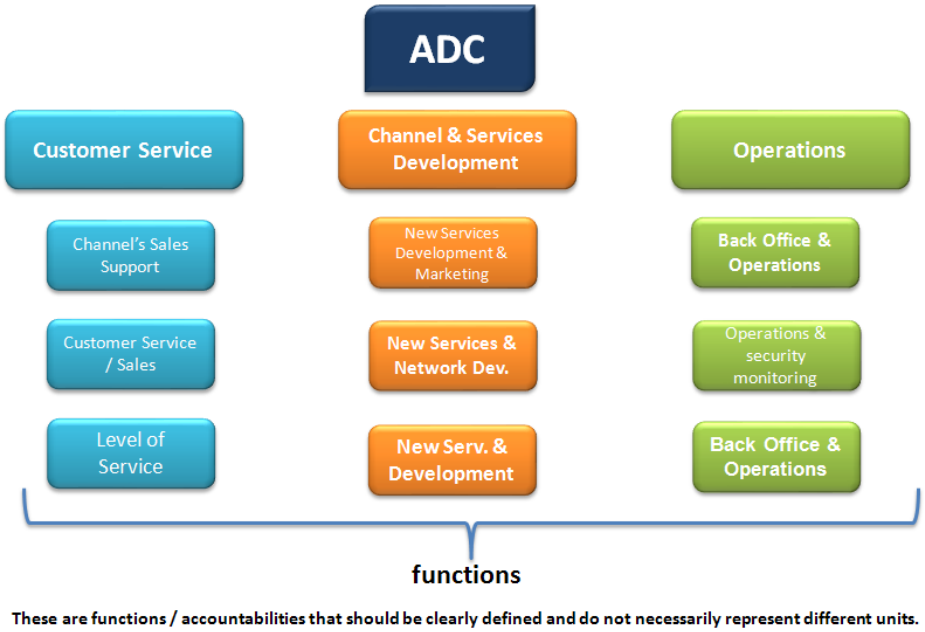
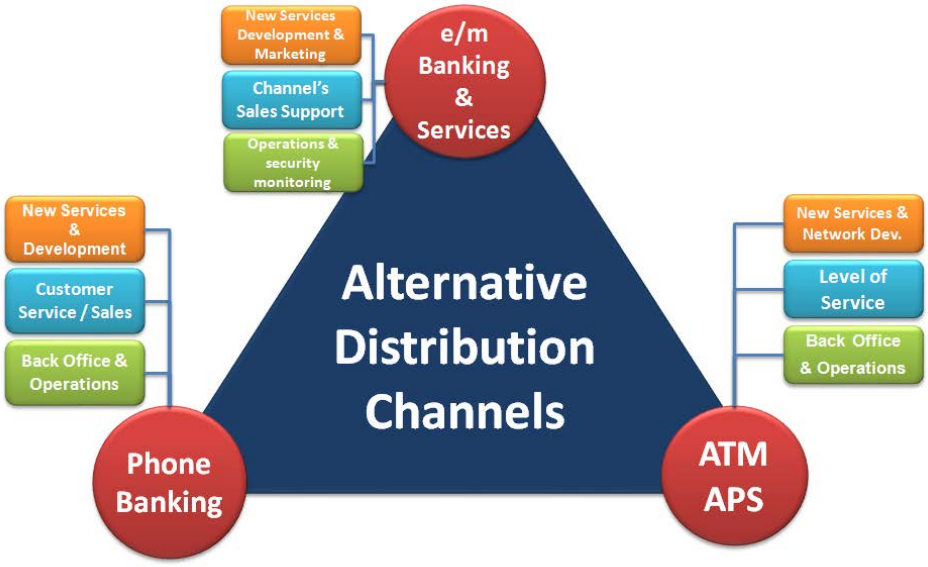


Fig. 2. Positioning of Functions within ADC



Finally the implementation of the integrated ADC model leads to the concentration of responsibilities in one unit and this develops the interaction between the three pillars of ADC: Phone Banking, E-Banking/M-Banking&Services, and ATM/APSs. The interaction is being improved due to the better coordination among the three.

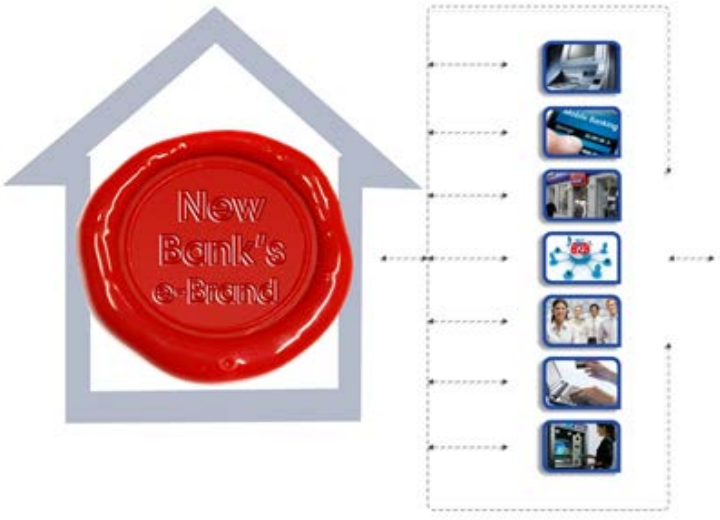
4. PROPOSED OPTIMAL ADC MODEL



The bank which chooses to integrated ADC and develops them can undertake a number of actions which to further strengthen its position on the market and reaffirm it having a new image and offering new perspectives to its clients. This can be done through a dedicated marketing strategy which can include the creation and development of a separate brand which to distinguish the e-banking services from the conventional ones that the bank is offering. Market research reveals that there is no unified approach among banks when it comes to whether there should be such a separate strategy. While some of them go ahead for it, others tend to keep branding of the e-services fully in line with the one applied on traditional banking services. Examples from the Bulgarian banking market are: DSK - DSK Direct, FIB - My Fibank & Virtual Branch, Bulbank - Bulbank Online, Raiffeisen - Raiffeisen ONLINE, UBB - UBB Internet Banking. Examples from international practice abound, to mention a few: CITY Bank - Bank online, VTB - VTB24, ING - ING Online.

Creating and supporting a separate brand might be costly and might require additional efforts on the part of the marketing team of the Bank but it is a certain way to distinguish the efforts the organization is putting in modernization.

Fig. 4. ADC Brand



Possible Branding Solutions:

Digital Banking
Bank Direct
Bank Digital
Bank Dynamic
Bank 24/7
Bank Online
Postbank.Net
Bank Everywhere
Bank #1 PrimeBanking
Bank2
BankMall
iBank
iTransact
All-In-One-Bank
Bank4U
MyBank
BankNonStop
UniverasalBank
UniversalBanking
e-Banker
e-Prime
e-Touch
e-Standard
e-Dynamic
e-International
e-PersonalBanking
e-Everywhere

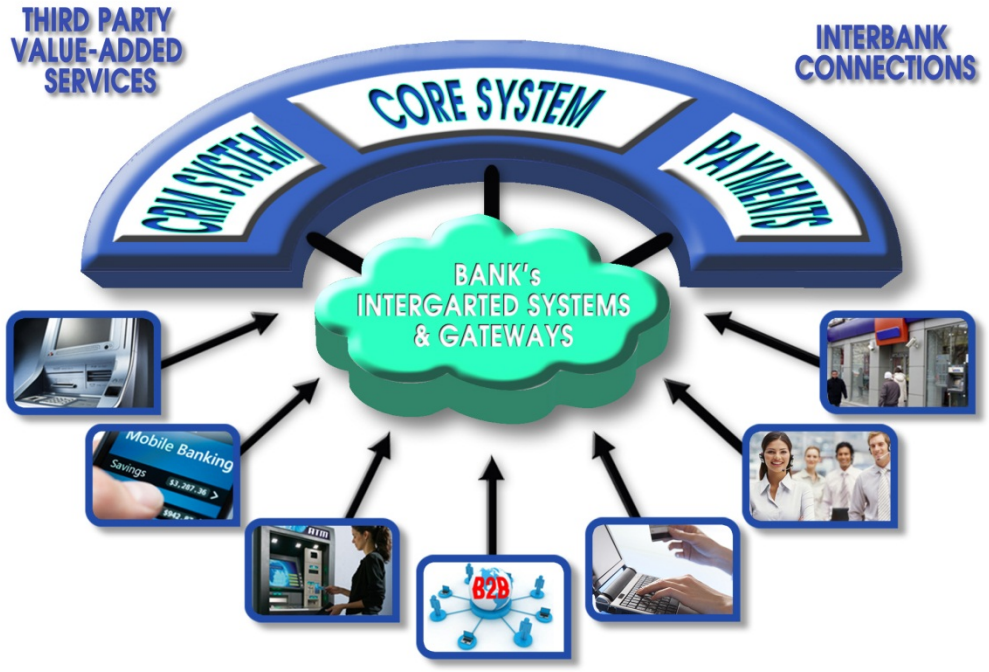
There are a number of key success factors for achieving ADC integration and ultimately the transformation of the traditional commercial bank into a multichannel organization. Some of the most important ones are presented below:

- Top management commitment in order to support the effort and facilitate to overcome resistance to change.
- New organizational structure that will support the integration and business development and increase the bank's penetration rates to the individual, SB and Corporate customers segments.
- Staffing with an adequate number of experienced and senior employees.
- Clear Alternative Channels strategy definition and implementation.
- Effective cooperation of the involved BUs; Network, Consumer and IT Divisions contribution towards the integration of the Alternative Channels is considered important.
- ADC revenues and cost allocation to the service recipients (bank's BUs) through an allocation model that will support sales efforts, improve productivity and increase customer service levels

Providing for the presence of the above factors, success of the ADC transformation is facilitated and thus literally the recreation of the whole organization giving it a fresher, new and more vibrant core.

The benefits of the transformation and of the ADC integration can be visualized as shown in figure 5 below.

Fig.5. Benefits of ADC Integration



CONCLUSION

The traditional bank has undergone significant transformation through the centuries, and especially during the last 30 years. Striving to extract benefit for itself it has been adapting to the various needs of society. In antiquity it has started operating as an institution based in temples, in the middle ages it has gone through debates on the necessity of its existence and has finally established its place in the center of economic activity upon imposing the idea for the need to charge and collect interest. Today the majority of society can hardly imagine reality without banks.

Key to the success of the efforts to keep the customers has always been the ability to find the easiest and most convenient way to approach them and stay close to them. As technology develops, new ways of reaching the clients, or alternative distribution channels, come into existence thus forcing the banks to rethink the way they service the customers and ultimately – to rethink their business and operational model.

Rethinking the model a bank works is not an easy task. It needs to involve expertise from all sectors of the institution at top management level. Determination on the part of the top management is key to triggering the development of the needed changes within the organization which will give it a chance in the ruthless battle for new and retention of the existing customers. Next comes the correct definition of the model and its implementation in the organization. In many cases this is accompanied by painful changes related to the need certain units to give up spheres of influence which to be consolidated in the new unit dealing with ADC. This, however, is inevitable part of the transformation process which will give new opportunities ahead of the institution, reforming it in alignment with market trends. Failure to understand the need to change, lack of courage to implement the change and short term horizons on the part of top management are detrimental in a world of rapid technology advancement. The future belongs to those who are ready to take it.

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