Winter 12-2012

DISTRIBUTION CHANNELS MANAGEMENT IN BANKING SECTOR Global Trend and Strategies

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Global Trend and Strategies
MASTER DEGREE

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December/2012
Prishtine

University for Business and Technology
Faculty for Management, Business and Economics

Master Thesis
Academic Year 2004/2005

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December/2012

This thesis is submitted in partial fulfillment of the requirements for a
Master Degree

ABSTRACT

This paper seeks to evaluate the Banking sector in Kosovo, more specifically distribution channels development, channels management, integration among them, and global trends and strategies. Distribution channels development and management in banking is becoming an essential component on achieving customer satisfaction, improve costs efficiency and profitability.

In order to make the study more comprehensive I will also provide global perspective of the banking sector in Kosovo in general, global financial crises and its effects. The thesis describes how banks manage and take advantages of banking multi-channels through focusing on customer satisfaction, efficiency and channels integration versus costs. I will analyze the development and the roles of the following banking channels: Branch Network, ATM (Automatic Teller Machines), POS (Point of sales), E-banking, Call Centre, and make a recommendation on how the banking industry can best integrate all channels, use the most cost-effective and profitable channel in order to remain competitive in the hyper-competitive environment while increasing customer satisfaction and efficiency. Kosovo has made outstanding progress in the last twelve years, especially in reconstructing the financial sector basically from the scratch and rebuilding confidence in it, much later than other countries in Southeastern and Central Europe. However, analyzing the development of distribution channels, in particular electronic channels, despite the fastest growth in the recent years compared to other regional countries, yet, Kosovo remain behind the regional countries and European countries in general. Kosovo has the fewest number of branch and Automatic Teller Machines per people/inhabitants, fewest number of POS (Point of sales), high number of unused POS terminals throughout the Kosovo, and fewest number E- banking users as well. Additionally, usage of alternative and electronic channels still remains in quite dissatisfaction level, as majority of the transactions are still preformed inside the branches. The thesis also describes how the electronic channels help to reduce the costs for both banks and customers.

Key words: Banking Sector, Distribution Channels, Channels Integration, Branch Network, Electronic channels.

PERMBLEDHJE

Ky dokument bënë vlerësimin e sektorit bankar në përgjithësi, me theks te veçantë në zhvillimin e kanaleve të distribuimit, menaxhimin dhe integrimin e tyre , si dhe trendët dhe strategjitë globale. Menaxhimi dhe integrimi i kanaleve të distribuimit në sektorin bankar gjithnjë e më tepër po bëhet një nga komponentët kyçe ne përmirësimin e shërbimit ndaj klientëve, përmirësim i efikasitetit dhe profitabilitetit. Në mënyrë që të bëjmë këtë studim më gjithëpërfshirës ,unë gjithashtu do të paraqes një perspektive globale të sistemit bankar në përgjithësi, përfshirë edhe krizën globale financiare dhe efektet e saj.Teza përshkruan si bankat në Kosovë kanë të zhvilluara kanalet alternative, si qëndron tregu bankar i Kosovës në krahasim me vendet e regjionit dhe atë evropian, çfarë lloj transaksionesh realizohen në kanale te ndryshme, dhe nëse këto shërbime do të mund te realizohen në kanale tjera alternative të cilat do të jenë më pak të kushtueshme për bankën dhe klientët, gjithsesi, me fokus te veçantë në përmirësimin e shërbimit ndaj klientëve dhe përmirësim të efikasitetit. Unë do të analizoj zhvillimin e kanaleve kryesore bankare në Kosove, duke filluar nga rrjeti i degëve, ATM-te, pikat e shitjes (POS), E- banking , qendrën e thirrjeve/Call Centre , si dhe bëjë rekomandimin se si industria bankare mund më së miri te integroj të gjitha kanalet, përdorë kanalet më kost-efektive dhe profitabile në mënyrë qe bankat të mbesin konkurruese në një ambient hiper konkurrues .

Kosova ka bërë një progres të madh në dymbëdhjetë vitet e fundit, veçanërisht në rikonstruimin/rindërtimin e sektorit financiar nga thelbi, si dhe ri-ndërtimi i besimit , shumë më vonë se vendet tjera në Evropën Juglindore dhe Qendrore.

Megjithatë,duke analizuar zhvillimin e kanaleve te distribuimit , në veçanti kanalet elektronike, pavarësisht rritjes se shpejte në vitet e fundit krahasuar me vendet e regjionit , Kosova ende mbetet prapa vendeve te regjionit dhe vendeve evropiane në përgjithësi, përfshirë përdorimin e kanaleve elektronike, meqë shumica e transaksioneve ende realizohen brenda rrjetit te degëve. Kosova ka numrin më te vogël te degëve dhe ATM-ve për banorë , numër relativisht të ulët të pikave të shitjes (POS) përfshirë nivel të lartë të terminaleve të pa-shfrytëzuara, si dhe numër të ulët te përdoruesve të E- Banking.

ACKNOWLEGMENT

In the course of writing this thesis, I benefited from the assistance and encouragement of many individuals without whose support this undertaking would have been impossible to be achieved.

I must express my great appreciation to my parents, my sister and brothers for the enormous support, love and motivation.

I would also like to express my special appreciation to Raiffesien Bank Kosovo for the financial support and career development.

In particular, enormous gratitude to my husband Melos and my great sons Sharr and Mal, who motivated and encouraged me to achieve my goal.

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CHAPTER I

JUSTIFICATIONS OF THE STUDY

In 1999, the accumulated ethnic tension in Kosovo burst out in an armed conflict, sweeping away the already weak banking market and destroying most of the public infrastructure. Furthermore, the economic and political insecurity that eroded public confidence during the 90s was reflected in the creation of the structures characteristic of a cash society and in the restrained foreign investment, which was inherited after the war. On June 1999, Kosovo was placed under UN administration.

Kosovo Banking system was established from scratch in 1999. Developments in the banking sector in Kosovo have been significant in the last twelve years. The Central Bank of Republic of Kosovo (the "CBK"), a successor to the Banking and Payments Authority of Kosovo and to the Central Banking Authority of Kosovo was established on June 2008 with the approval of the Law No. 03/L-074 on "Central Bank of the Republic of Kosovo" by the Kosovo Assembly[1] .

This master thesis is organized in two parts. In part one, I will provide an overview of the banking sector in Kosovo, followed with the global financial crises and its impact in Balkans countries. The second part, the main part of the thesis is banking channels development, channels management and integration, global trends and strategies, starting from Branches as a main distribution channel, continue with E-Banking, ATMs (Automatic Teller Machine), Mobile Banking and Call Center, as an alternative/electronic channels.

In general, the thesis expose the advantage of the banks to upgrade the new channels management concepts and strategies, evolving from traditional way of doing bank business respectively in –branch , to customer-centered strategies where majority of the transactions

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[1] Central Bank of the Republic of Kosovo/ http://www.bqk-kos.org/?cid=2,2

will be   moved to alternative and electronic channels which gives to customers more flexibility and interaction to preferred and less costly channel.

The traditional bank branches used by the banks as an entryway have changed their focus, the branches will always exist however the role is gradually changing. Gradually majority of simple transactions and payments will be shifting to alternative and electronic channels, even though it is also various from the regions, respectively banking history and tradition in different regions.

Although branch is still the largest model of banking, worldwide the proportion of branch transactions is decreasing thanks to the rising popularity of alternative/electronic channels like ATM's, internet banking, call centers and mobile banking. Banks should advise customers to shift routine transactions away from branch to self-service channels, because the costs are less than in-branch transactions, likewise, provide better customer service by offering 24 hours service and avoid waiting time in branch for performing simple and routine transactions.

CHAPTER II

STATEMENT OF THE PURPUSE, OBJECTIVE, SCOPE, AND LIMITATIONS OF THE STUDY

There is extensive debate about the future of the banking channels roles, functionality and management. There are opinions that branches will become very difficult as a customer move toward online channels, whereas others believe that majority of transactions will still remain in the bank branches and customers still looks the location as per their convenient because they really need face-to –face and human interaction.

The objective of the study is to evaluate the banking sector in Kosovo, more specifically distribution channels development, channels management, integration among them, and global trends and strategies. In addition, different channels penetration, number of people/inhabitants per different channels and also analyze how our market stands in comparison with other regional counties. The objective of the study is also to describe how the electronic channels help to reduce costs for both banks and customers!

Banks are finding current market environment and conditions tough and try to find the best way to meet customer demands, provide superior customer service, while increasing efficiency and reduce operating costs. Putting customer first is the right response, and the branch is the places to do that, however how much cost are associated with opening new branch? The answer on the question is based on the products and services which the new branch will offer. The fundamental question to this is: whether these transactions and payments can be performed in other alternative channels which are less costly? Globally, the role of branches is changing rapidly. Most of the services and routine transactions are moving toward alternative and electronic channels such us: Automatic Teller Machines, Internet Banking, Mobile Banking and Call Centre.

One thing is clear: the branches will always exist, however the following questions occur, respectively the scope of the study is:

- What will be the future of the bank branches? What will be the role of the branches in the environment dominated by new channels?

- What role other alternative/electronic channels will play?

- How the development and usage of alternative/electronic channels will effect CIR (cost income ratio) and banks profitability;

One of the possible limitations of the study are lack of quantitative data, in particular, data for mobile banking in Kosovo and regional countries, Call Centre/Telebanking sales activities, as well as costs structure through different channels, which could ensure a better origination of this paper.

CHAPTER III

SPECIFIC, METHODOLOGY OF THE STUDY

For the purpose of this thesis I chose the qualitative research method by using observation techniques, interviews and literature review.

This research was started back in 2005 and since then in my position as a distribution channels head, responsible for network channels development, management and integration, I have used observation techniques. During this period, I conducted a close observation in all channels throughout the Republic of Kosovo. The focus was in all branches /cities, as well as centralized alternative channels located in head office in Prishtina, i.e Call Centre. My second approach to this research was the interview method, where I used the structured and semi-structured interviews with all relevant parties in branches, including branch management and front line employees. Additionally, there were questioners organised in branches in order to gather internal and external customers' feedbacks. In order to triangulate the study I used the literature review to verify the data collected during the observatory techniques and relevant interviews.

Methodology includes shifting from traditional channels of distribution to more advanced channels, such us: E- Banking, ATM and Mobile Banking, as well as costs and benefits.

The data collected in this study were compared to the study case of in-branch and E banking usage by customers, analyses of basic/simple transactions and more complex transactions[2]. These comparisons were mostly based on the literature reviews from different retail banking conference materials and presentations in Europe, EFMA magazines[3], The Economists[4], European banking reports and publications.

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[2] Global Consumer Banking Survey 2012, ERNST & YOUNG
[3] European Financial Management & Marketing Association, Retail Banking Conference in Amsterdam (March'2011)
[4] The Economists ,Retail Banking in Europe, London - Douglas Merrill, Founder and Chief Executive Officer, Zestfinance; Ashok Vaswani, CEO UK Retail and Business Banking, Barclays, 2012;

1. FINANCIAL SECTOR IN KOSOVO

1.1. The evolution of Banking

In the middle Ages, gold and silver were used as money in most European nations and for international trade. To avoid the inconvenience (and risk) of carrying around a wheelbarrow full of gold and coins, most merchants preferred to keep their money in a safe place. They usually left it with goldsmiths or money changers who first placed it on benches (or counters) so it could be examined and weighted. This practice evolved into what is now known as Banking. The word Bank is derived from the Italian word of **bench**, which is **banco**[5].

1.2. Development of the Kosovo Financial Market

The Kosovo economy inherited in 1999 had been damaged by poor economic policies, broken external trade and financial links, international sanctions, a lack of investment, and ethnic conflict[6]. Therefore, the economic and socio-political uncertainty persisting during the 1990s that eroded the public confidence was reflected in the creation of the structures characteristic of a cash society and in the restrained foreign investment even after the conflict was over.

Kosovo financial sector is one of the newest financial sectors in Eastern Europe, the development started in 2000 when the Banking and Payment Authority for Kosovo (today operating, Central Bank of Kosovo) has licensed the first bank after the conflict, Micro-Enterprise Bank, January 17, 2000 (today operate as a ProCredit Bank).The graph below summarizes the development history of commercial banking in Kosovo market. Today, Kosovo Banking market consists with eight commercial banks, operating throughout Kosovo (source: Central Bank of the Republic of Kosovo).

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[5] Economics, Hyman pg.648
[6] World Bank report, 2004

Figure 1: Development of the banking sector - entrance of new Banks by years

PCB	BRK, BE, ABK, BpB	ABK acquired by Raiffeisen	TEB & BKT	NLB
2000	**2001**	**2003**	**2007**	**2008**
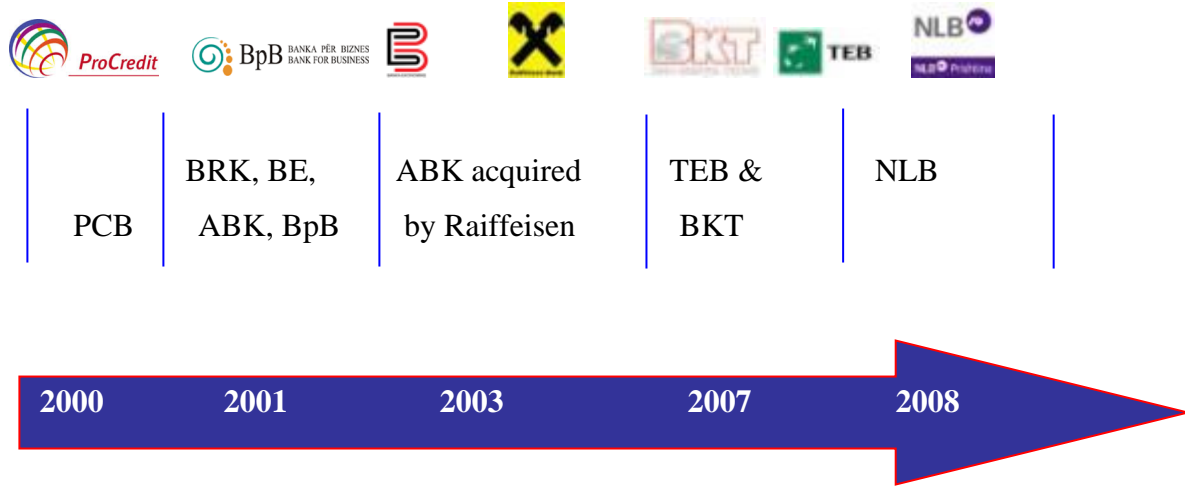
Notes:

1. *January 2008, NLB Prishtina took over and merged Kasabank (KSB) and Banka e Re e Kosovës (BRK).*
2. *Raiffesien International came to Kosovo by the end of 2001 by purchasing most of the shares of the American Bank of Kosovo to complete the purchase and rename the bank in June 2003.*
3. *Tthe Banking and Payments Authority of Kosovo (BPK), in its capacity of bank supervisory authority, by order dated March 13, 2006 revoked the license of Credit Bank of Pristina.*

Table 1: List of Commercial Banks operating in Kosovo

Commercial Banks; June 2012 - Acronyms	
RBKO	*Raiffesien Bank Kosovo J.S.C.*
PCB	*Procredit Bank*
TEB	*Turk Economic Bankasi*
BKT	*Banka Kombetare Tregtare*
BE	*Banka Ekonomike*
NLB	*Nova Ljublanska Banka*
Komercijalna Banka	*Komercijalna Banka*

1.3. Kosovo Economy overview

Over the past years Kosovo's economy has shown remarkable progress in transitioning to a market-based system and sustaining economic stability, but it is still highly dependent on the international community and the diaspora for financial and technical aid. Most economic development since 1999 has taken place in the trade, retail and construction sectors. The private sector which has emerged since 1999 is mainly small-scale. The industrial sector remains weak. Kosovo has very low levels of general government debt (only 5.8% of GDP)[7].

Migration and remittances have made an enormous contribution to the Kosovo economy.

On a household level, they ate considered a coping mechanism for the disadvantaged household lacking employment and earning opportunities. More than one in every third household in Kosovo has family member abroad, and one in every forth receive remittances[8].

Remittances from the diaspora - located mainly in Germany, Switzerland, and the Nordic countries - are estimated to account for about 17% of GDP, and foreign subsidies for approximately 20%. The amount of remittances in 2011 reached 584 mio. A fairly high share, 57.2% of cash remittances are channeled to Kosovo through banks and money transfer agencies, 42.8% are bought in person by emigrants or their friends. Also the transfers channels have been formalized, informal channels are still popular because of the costs compared to formal channels. The remittances inflow shows the positive trend since 2005, except 2009 when there was a slight decrease from 535 mio (2008) to 505 mio (2009), which is mainly justified with the global economical and financial difficulties in the countries where emigrants lives.

Unemployment, around 45% of the population, is a significant problem that encourages outward migration and black market activity. Most of Kosovo's population lives in rural towns outside of the capital, Prishtina[9]. With international aid, Kosovo has been able to

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[7] IMF Country Report No 12/100
[8] Kosovo Remittance Study 2012 ,UNDP;
[9] IMF, World Economic Outlook 2012;

privatize 50 per cent of its government-controlled enterprises (SOEs) by number, and over 90 per cent of SOEs by value.

The countries of Southeastern Europe (SEE) recorded positive economic growth rates during 2011, among which Kosovo marked the highest growth rate. Most of the SEE countries during 2011 were careful in reducing the budget deficit; despite the fact that the level of public debt in the SEE countries is moderate. Year 2011 was characterized with higher rates of inflation, whose main source were energy and food prices. As a result of developments in the euro zone and SEE, a slowdown of credit growth and deterioration of quality of loan portfolio was observed in these countries. Within the SEE countries, Kosovo continues to be one of the states with the highest rate of credit growth and a better loan portfolio quality. The macroeconomic data indicate that there has been a recovery of economic activity and a positive economic growth[10]. According to CBK and IMF reports, the GDP real growth in Kosovo was 2.9 % in 2009, 4% in 2010 and 5% in 2011, whereas forecasted growth for 2013 and 2014 is 4%.

Figure 2: GDP growth (%) by years in Kosovo, (2013 and 2014 forecasted figures)
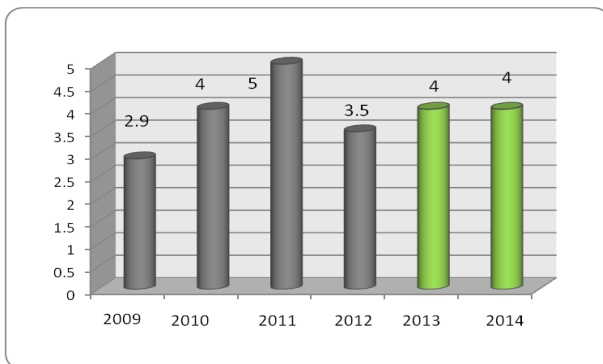
1.4.   General Characteristics of Financial Sector in Kosovo

The positive performance of the real sector of the economy also helped maintaining the stability of the financial sector, which in year 2011 continued to increase its activity.

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[10] CBK annual report 2011;

During the second half of 2007 the banking sector was characterized with new entries. In third quarter of 2007, the license for operating in the Kosovo banking market was granted to Banka Kombëtare Tregtare (BKT) from Albania. At the end of 2007, Türk Ekonomi Bankasi (TEB) from Turkey joined the Kosovo banking system and in January 2008 started its operations. Also NLB Prishtina which took over and merged Kasabank (KSB) and Banka e Re e Kosovës (BRK) started operations in January 2008. In December 2009, Kosovo banking sector consisted of eight commercial banks (Table 1), of which six in foreign ownership and the remaining two in domestic ownership.

Even though the number of commercial banks didn't change much in the last five years (figure 1), the number of alternative channels was rapidly developed, which we will analyze in more details in the next chapter.

Financial sector assets at the end of 2011 reached the value of euro 3.5 billion, representing an annual increase of 9.3 percent. Banking system assets continue to dominate the structure of overall financial sector assets with a share of 76.3 percent (figure 3). The activity of the banking system continues to be concentrated in lending to the country's economy, while the main source of funding for banks remain deposits collected in Kosovo. In 2011, loans issued by the banking system recorded an annual increase of 16.4 percent, reaching a value of euro 1.7 billion.

Deposits in the banking system continued to grow, reaching the amount of euro 2.1 billion, thus representing an annual growth rate of 8.5 percent. Kosovo's banking system has continued to maintain a high level of stability, characterized by a high level of capitalization, good quality of loan portfolio and satisfactory liquidity position.

For the banking system as a whole, the Tier One Capital Ratio as of January 2012 was 17.5%, the proportion of non-performing loans was 5.9%, and the credit to deposit ratio was at 80%.[11].

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[11] CBK Annual report, 2011

1.5.   Structure of the financial sector

Commercial banks continued to represent the main participant in financial sector, managing 76.3 percent of total assets of the sector. An increase 2011 vs.2010 is noticed in share of the pension funds which at the end of 2011 managed 17% of the financial sector assets compared to 15.4% percent in 2010. The number of commercial banks operating remained unchanged, at eight (8), as well as pension funds two(2).Changes are noticed in the number of insurance companies operating in Kosovo, where in late 2011 began operating two new companies, thus raising the number of insurance companies to 13[12].

The number of new entries on regard to commercial banks is much affected from global economic and financial difficulties in the European countries. These difficulties are reflected in the performance of potential investors, thus, effecting their capacity and interest to extend the activity into new markets.

Figure 3. Structure of financial system assets by sectors

Commercial Banks	***76.3%***
Pension Funds	*17 %*
Microfinance Institutions	*3.70%*
Insurance Companies	*3%*
Financial auxiliaries	*0.20%*

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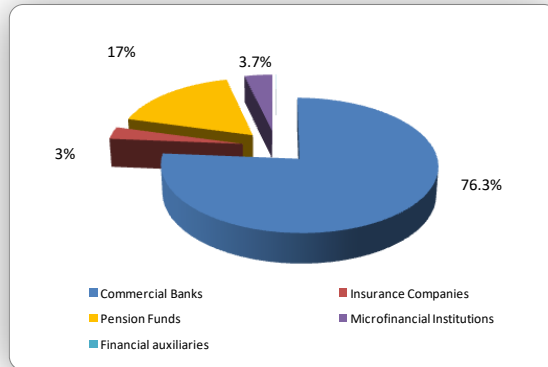
[12] CBK annual report 2011,pg 33

1.6.   Foreign Investments in Banking sector

Financial sector in Kosovo is characterized with a large presence of foreign capital. This is mainly prevalent in the banking and insurance market .The presence of foreign financial institutions in Kosovo has contributed in the modernization of the financial system by bringing more advanced practices in finance and stimulating competition (figure 4 shows market share by banks operating in Kosovo). In the last five years there was no new foreign investment in the Banking sector, however by end of 2012 it is expected that new Turkish bank will entre in Kosovo financial market.

The ownership structure of Kosovo's banking system consisting of six foreign-owned banks and two domestically-owned. The sector remains dominated by foreign-owned banks, which manage over 90 percent of total banking sector assets. Kosovo's banking sector continues to be characterized by a high degree of concentration, with over 70% percent of total assets being managed by the three largest banks, respectively Raiffeisen Bank Kosovo, Procredit Bank and Nova Ljublanska Banka.

Figure 4: Lending and Deposits market share by banks[13]

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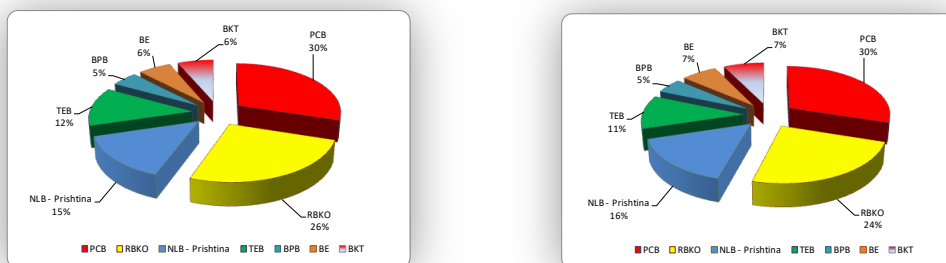
[13] Source: Quarterly market report, Bank Balance Sheets, Q3/2012 figures;

The banking sector activity remains mainly basic and relies on lending to the domestic economy, while its main source of finance remain deposits collected in Kosovo, consequently the Kosovo was not directly exposed by 2008-2009 financial crises.

Raiffesien Bank International[14]

Raiffeisen Bank International AG (RBI) regards both Austria, where it is a leading corporate and investment bank, and Central and Eastern Europe (CEE) as its home market. In CEE, RBI operates an extensive network of subsidiary banks, leasing companies and a range of other specialized financial service providers in 17 markets.RBI is the only Austrian bank with a presence in both the world's financial centers and in Asia, the group's further geographical area of focus. In total, around 61,000 employees service about 14.1 million customers through more than 3,100 business outlets, the great majority of which are located in CEE.

RBI is a fully-consolidated subsidiary of Raiffeisen Zentralbank Österreich AG (RZB). RZB indirectly owns around 78.5 per cent of the common stock, the remainder is in free float. RBI's shares are listed on the Vienna Stock Exchange. RZB is the central institution of the Austrian Raiffeisen Banking Group, the country's largest banking group, and serves as the group head office of the entire RZB Group, including RBI.

1.7. Kosovo's membership in the International Monetary Fund

During 2009 a big progress was made, Kosovo become a member of IMF- International Monetary Fund, being its 186th member.

The International Monetary Fund (IMF) is an organization of 188 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world[15].Membership of Kosovo in the IMF represents a particular opportunity for new perspectives and challenges of economic development.

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[14] http://www.rbinternational.com
[15] www.imf.org;

1.8.   European banking sector in figures

According to the European Central Bank's figures on Credit Institutions operating in the EU, the decade-long trend of a decline in the number of Credit Institutions (CI) continued into 2011. Over the past decade, the EU-27 Credit Institutions population shrank by some fifteen hundred institutions, resulting in just over 8,060 Credit Institutions by the end of 2011. This financial consolidation has been accompanied by a solid bank asset growth, total aggregated assets witnessing an 85% increase in 2011 compared with 2001. Over the same period, the loan base grew by 69% to finance the EU businesses and private persons, and 79% more deposits are now held by the EU banks. The EU financial sector ended 2011 on a positive note: total assets grew by 4.4%, while both loans and deposits increased by almost 3.7% and 4.3% respectively. According to the International Monetary Fund (IMF), the level of non-performing loans (NPLs), as a share in total loans, was still rather high in most EU countries in 2011. Median NPL ratio was at 6.0% in the EU-27, and at 5.6% in the euro area[16].

1.9.   Global Financial Crises

The impact of global financial crisis (2008 and 2009) cannot be said to have affected only US or Europe or Africa due to the fact it had a global impact. Every country suffered serious economical loses even if they were not the originators of the crisis. It marked a time in history when people in all walks of life had almost similar economic challenges to speak. Governments, banks, companies and other financial institutions had to come up with remedies in order to cope with the situation. Think of cutting costs, low credit facilities, low income, and budget controls just to mention a few. Indeed, some countries are still struggling to repair or rather recover from this situation. Kosovo is part of Europe and cannot act as a closed oasis.

The year 2008 will be remembered as a year of crises which happened once in a century. Initially, the crises caused the turbulences in the Wall Street and brought the

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[16] European Banking Sector, Fact and Figures 2012

radical changes from the governments. The year of 2008 was a year of financial crises, which brought the USA, Europe and Japan into recession, for the first time after the Second World War.

In the long history of global financial crisis, 2008 crisis is regarded as among the most profound and comprehensive on the speed and wideness of development. The sources of the crisis lie in the three pillars of the functioning of banking institutions: inadequate management of credit risk and liberalization of excessive lending policies (undervalued credit risk due to the intensification of competition in financial markets); inadequate capitalization of the banking institutions; and inadequate management of their liquidity.

A lot of people took loans without having the capacity to pay their debts, creditors started to bankrupt. These brought to the situation that banks have limited the lending to business and individuals. Given the fact that lending by financial institutions is the source of funding for many economic activities, problems in this area had "domino effect" for many of those economic activities. Therefore, the crisis played a significant role in the failure of key businesses, declines in consumer wealth, and a downturn in economic activity leading to the 2008-2012 global recession and contributing to the European sovereign debt crises. Following, will try to widen its scope by capturing the general impact of global financial crisis on Balkan economies (Southern Eastern Europe).

1.9.1. Global Financial Crisis – It's causes and consequences

This section will seek to discuss the meaning of Global Financial Crisis, its causes and consequences. Here, the study will focus more on its general implications.

It is believed that the global financial crisis witnessed in 2008 was the worst in history since the Great Depression[17] (Trivedi, 2009). At the onset of this crisis, large financial institutions in US encountered failures and challenges (Trivedi, 2009) which also led to other European bank failures. As such, financial crisis applies widely to various situations. In most cases, financial institutions or assets lose their value all of a sudden. This loss is normally big and unanticipated. As a result, it causes serious recessions and

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[17] Trivedi, P. (2009).Global Financial Crisis. World Bank;

most banking processes panic, a crash occurs to the stock market, increased proliferation of financial bubbles, and crisis of currency and sovereign defaults (Trivedi, 2009).

As mentioned earlier, panicking in the banking system and recessions can be experienced in commercial banks where the depositors rush to withdraw all they have, what can be referred to as a bank run. Again, financial institutions eventually lose a larger part of their value.

Global financial crisis is not a phenomenon that occurs in a vacuum. As such, its consequences can be determined; it is believed that cases of regulatory failure, fraud, mismatch of asset-liability and leveraged investment act as major causes of such crisis (Trivedi, 2009).

It is also worth noting that global financial crisis impacts on the demand side of development process and the supply side of development process. Impact on consumer demand occurs due to the fact that majority of consumers reduce their spending including the private sectors who may consider postponing their projects. It is also worth noting that the intention of the private sector to invest in real estate can be adversely effected (Davies, 2009)[18]

Looking at the impact on the supply side of development process the private capital flows (FDI) slows down as the crisis affect the available pool of funds. In terms of liquidity, global financial crisis leaves banks on the danger of potential losses on their foreign investments. Moreover, most skilled workers undergo untimely retrenchment or there would be a downward pressure on their income and remuneration. This scenario would also occur to the un-skilled laborers who would also experience a reduction in their remuneration. The cost of raw materials may also depreciate due to the reduction of prices in the commodities. In this regard, the cost of materials in general would also decrease (Piscar, 2009)[19]. From this point it can be seen that reduction in the cost of materials has got both a positive impact and a negative impact. This is because the consumer of such raw materials will be able to pay for them at a cheaper price but on the other hand, the seller

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[18] Davies, T. (2008). The Impact of Global Financial Crisis. Journal of Economics, vol. 3

[19] Piscar, S. (2009). Reconciling Recession and Foreign Direct Investment. Oxford University Press

will make less profit that he would not have made had he sold the commodities at a higher price.

In general, global financial crisis affects the welfare and quality of life of all citizens. Inflation, for instance, can be one of the reasons to this. Another factor is what has already been mentioned in that loss of employment can reduce people's income. It is very difficult to have job opportunities in a situation of global financial crisis[20] (Norhayati, 2009).

1.9.2. The Effects of Global Financial Crisis on Balkan Economies

This section will take into consideration the impact of global financial crisis on Balkan economies. The section may contain some aspects that have already been discussed earlier only that they will be more specific.

It is believed that the crisis did not come out as a financial crisis to the Balkans but it was some sort of an economic turbulence that was due to the fact that Balkan's products had a reduced demand in the world markets (Lenahan, 2009)[21]. In the same context, other sources of finance also suffered immensely. There were increased losses in investments, industrial production, foreign exchange, remittances and employment (Lenahan, 2009).

In the beginning of the crisis most governments thought that they were still immune to its challenges but after many citizens lost their jobs and the increased reduction of world commodity prices, the governments accepted the reality of this crisis. Although as they insisted that the effects would not impact much on the Balkan region, the economy indicators still exhibited some degree of challenges and downfall, reduced industrial output, foreign investment and increasing rate of unemployment (The Economist, 2009). Clearly, the growth forecasts reduced from five percent to three percent, there was slowdown of investor projects and governments were embarking on rescue plans (The Economist, 2009). It is believed that in September 2008 when the global financial crisis

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[20] Norhayati, B. M. (2009). Global Financial Crisis Today. Universiti Sains Malaysia.
[21] Lenahan, T. (2008). Turnaround Economy in Balkan Region. Butterworth-Heinemann,Oxford, England.

was at the peak, contractions occurred to growth and joblessness mounted in the Balkan region. The situation seemed worse due to the fact that managers in foreign institutions and especially, foreign banks looked for foreign support so that they could withstand the situation. This was a clear indication that although the governments felt protected and secure from the situation they were still exposed to the financial crisis that replicated in the region in the form of economic crisis.

The increased fall of prices in the world markets had its challenges. Balkan region is known for its steel and metal exports and it was unfortunate that it had been affected by the global slump in the prices of the commodity. It was noted that the price of metals fell by two-thirds in mid 2008 which posed serious economic challenges to the region.[22] (Dnevnik, 2009**).**

Global financial crisis saw many companies announce lay-offs due to reduced demand and closure of many factories (International Monetary Fund, 2008). In Macedonia, for instance, unemployment was rated at 33%. Furthermore, Bosnia, Herzegovina and Kosovo recorded their unemployment rate at 40% [23].

Another sector that lost adversely was the real estate market due the fact that credits went down and it was also very difficult for the borrowers to clear their loans. Moreover, the prices for houses rose including other commercial-property prices. It is also worth noting that demand for new residential houses had also gone down[24].

It is worthwhile to mention that global financial crisis also affected the small scale enterprises and medium enterprises which actually serve as a backbone of the Balkan economies (Utrinski, 2009).

1.9.3. The Macroeconomic and Social Impact of the Global Financial Crisis

This section seeks to discuss the impact of global recession on Southeast Europe Economies. It will take into consideration the trends in GDP, employment, fiscal balances,

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[22] Dnevnik, R. (2009). Silmak prekina so robota, p.7
[23] European Commission,2009
[24] Utrinski, (2009). Rabotnicite od Kucuk izvisija. 3 Mart

monetary and social policy responses. It shall examine several economies where Kosovo is one of them.

According to tables below there was a slowed growth of GDP in Southeast Europe in the year 2009[25].

Table 2: GDP trends (%) in SEE (2005-2008)

Period (2005-2008)	GDP Trends (%)
Montenegro	7.7
BiH	5.8
Serbia	5.8
Croatia	4.2
FRYoM	4.8
Kosovo	4.7
Albania	6.0

Table 3: GDP trends (%) in SEE (2009)

Period (2009)	GDP Trends (%)
Montenegro	-4.5
BiH	-3.2
Serbia	-3.0
Croatia	-5.6
FRYoM	-1.2
Kosovo	3.4
Albania	2.5

As can be seen from table 3 (see above), Kosovo has the best growth performance of 3.4% followed by Albania with 2.5%. However, the other economies have their GDP below zero

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[25] Source: EIU, cited in. Slay,2010

since they record at negative values. The GDP growth in Kosovo and Albania was due to the fact that the two regions avoided sharp external adjustments. However, other economies reduced their net capital inflows which in turn tightened credit conditions in the period 2008-2009.

Q: To what extent has global financial crisis impacted on Kosovo?

Financial markets crisis has not had a material impact on financial sector due to Kosovo limited exposure outside of the Kosovo. However there were indirectly impacted, such us: Pension Savings Trust, which ended with the decline of the value of shares in the financial markets, mainly on 50% in U.S. markets, lower remittances during 2009 which continues to be the main source of income for a lot of Kosovo population, lower foreign direct investments etc.

 During these periods, the banks were more conservative on lending. The potential losses of the Kosovo financial markets would be in case of external exposure like placements or interest-bearing demands with other banks.

One thing that this study needs to re-affirm is that global financial crisis was real in Kosovo and its repercussion has been felt. Kosovo is part of Europe and cannot act as a closed oasis.

2. Distribution Channels Management in Banking Sector

This section will seek to discuss the Distribution Channels in banking sector. Here, the study will focus more on role and usage of different channels, staring from Branch Network, Sales Agents, POS (point of sales), ATMs, E banking and Online/Call Centers. Multi-channel integration is set to become a key growth story in the bank distribution channel market, as customers increasingly select to use the full range of offered channels. By investing in channel integration and functionality towards channels strengths, Banks can offer seamless customer service, while improving cross-sell rates, leveraging process synergies and increase efficiency while streamline operations (reduce costs).

2.1. Overview of Distribution Channels in Kosovo banking sector

Banking channels developments - What are the current trends?

Even though the number of banks remains the same in the last five years, outstanding improvements were made in terms of new channels of distribution, in particular alternative channels, such us: Point of Sales, ATM network and E- banking.

An expansion of the distribution network which improved citizen's access to banking services was noticed in the last five years. The number of commercial bank branches in 2012 reached at 309, from 279 in 2008 (all of them are sub branches spread out in different area in order to provide the easy and convenient access to the customers). Years 2008 to 2012 marked a significant increase in the provision of banking services such as Automated Teller Machines (ATMs), points of sale, electronic banking accounts, thus, facilitating customers' access to banking services. Number of branch/sub branches was increased for 11%, whereas number of POS terminals increased from 3,426 in 2008 to 7,534 in 2012, respectively 120%, Automatic Teller Machines increased from 240 in 2008 to 460 in 2011, respectively 92%, whereas E banking users from 13,000 in 2008 to 68,992 in 2011, or 429

% [26] , indicating that usage of alternative channels is growing rapidly comparing to the traditional branch network.

Table 4: Banking channels developments in Kosovo, 2008 –2011

Banking channels	*2008*	*2009*	*2010*	*2011*	*% growth*
Number of ATMs	240	339	415	460	**92%**
Number of POS	3,426	5,251	6,194	7,534	**120%**
Number of E banking users	13,051	40,924	55,292	68,992	**429%**
Number of branch units	279	287	311	310	**11%**

The table below presents the volume of payments over the last three years. Apart from the outstanding increase on number of alternative channels, the usage, respectively volumes performed has shown a high increase year on year, indicating that cash economy gradually is reducing while usage of alternative channels has been increased.

Table 5: Electronic Payments in millions euro, Kosovo market

Description	*2009*	*2010*	*2011*	*% growth*
ATM withdrawals	582	639	790	**36%**
POS payments	68	94	142	**109%**
E-banking payments	607	782	1,191	**96%**

Source: CBK annual report (2011)

### 2.1.1. Branches, as a main distribution channel

A significant slowdown during the last five years has been evident with regard to the expansion of the number of commercial bank branches and sub-branches. These

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[26] CBK Annual report and monthly statistical bulletin!

developments mainly reflect the measures undertaken by commercial banks to reduce their basics transactions in-branch and shift them to electronic and less costly channels.

The number of commercial bank branches and sub-branches in 2012 reached at 309 (279 in 2008). The expansion of bank infrastructure, in terms of the number of Automated Teller Machines (ATM), points of sale (POS) and electronic banking (e-banking), continued over the years, thus enhancing customer's access to banking services.

Figure 5: Number of branch units in Kosovo by years
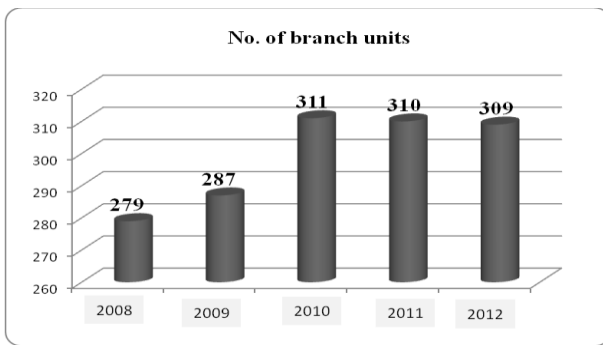
Following, I will analyze the number of bank branches in comparison with other countries. It is important to analyze how the other Balkan countries have developed the different channels, how the ratio stands for number of Branch units per inhabitants in Kosovo and comparison with different countries.

Table 6: Number of bank branches in different countries

	Kosovo	*Albania*	*Bosnia*	*Croatia*	*FYR Macedonia*	*Slovenia*	*Bulgaria*	*Turkey*
Population	**2,100,000**	**3,195,000**	**3,843,000**	**4,489,409**	**2,057,284**	**2,050,189**	**7,504,868**	**73,000,000**
Loans (bn €)	1,6	3,54	7,54	36,94	3,04	34,44	25,94	274
Deposits (bn €)	2,1	5,89	6,40	36,45	3,47	23,50	23,99	260
Loans per inhabitant	762	1,108	1,952	8,228	1,478	16,798	3,456	3,753
Deposits per inhabitant	1,000	1,844	1,665	8,119	1,687	11,462	3,197	3,562
Branch units	**309**	**548**	**955**	**1,282**	**436**	**741**	**5,961**	**10,072**
Number of inhabitants/branch	**6,796**	**5,830**	**4,024**	**3,502**	**4,719**	**2,767**	**1,259**	**7,248**

As can be seen in the above table, the number of bank branches various between countries. Kosovo has the fewest number of branches per inhabitants, respectively 6,796 inhabitants

per branch unit, whereas the best ratio in the region has Bulgaria with 1,259 inhabitants per branch.

If we compare with EU, by the end of 2010, the number of banks in EU had fallen by 2.2% to 6,825. Bank branches also had registered a decline of 1.9%, to 215,000 on the account of rise popularity of online banking[27]. The average standard in Europe Union is 2,300 inhabitants per bank branch (503 mio/215,000 branches). Austria has a highly developed banking sector. Access to banking services, measured as number of inhabitants per bank branch, is among the highest in Europe (1,673 inhabitants per branch in 2010).

Figure 6: Number of inhabitants per branch- comparison with regional countries

Number of inhabitants per branch

Country	Value
Bulgaria	1,259
Slovenia	2,767
Macedonia	4,719
Croatia	3,502
Bosnia	4,024
Albania	5,830
Kosova	6,796
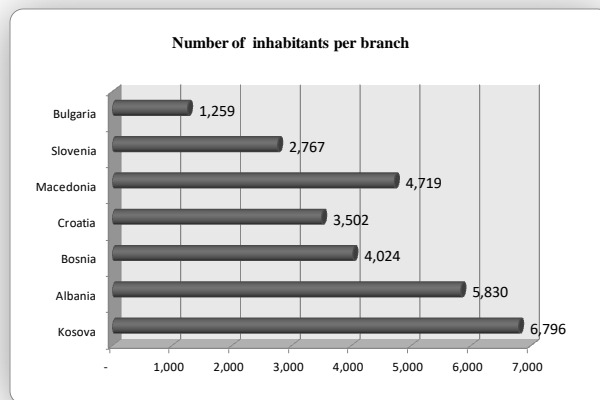
2.1.2. Branch Productivity in Europe - Branches' central role

Below will present the study made by "Finalta", on regard to Branch Productivity in Europe. In 49% of the banking establishments questioned, more than 80% of products are sold via the retail Branch Bank. Only 2% of those questioned conducted the majority of their sales through other channels (see Figure 7).

Figure 7: What percentage of retail products sales are made through branch network?

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[27] European Banking Federation ; EU Fact and Figures 2011/2012
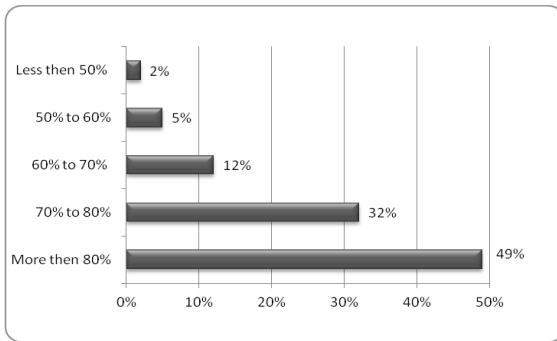
For 49% of the Banks questioned the branch network accounts for more then 80% of the volume of sales to private customers. Products with high added value are sold via the branch network. Because of this, the branches' central role to the retail bank's profitability remains key [28]. Furthermore, I have analyzed the products sales by channels in Bank X. From the analyses performed (see below figure 8), we see that majority of sales are performed in Branch Network, respectively 70% of volumes, 20% by Mobile Bankers network, 7% by the CRM, while 3% thru the Call Centre. Please note that analyzes and sales are performed for Mass Banking only!

Figure 8: Volumes of sales by channels, Bank X
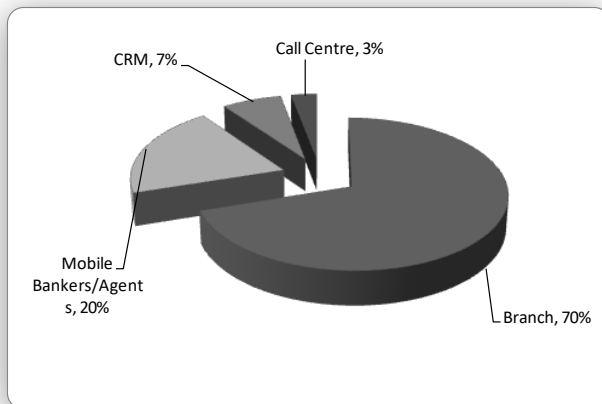
It is important to emphasize that above I have analyzed the products sales and not routine/simple transactions, such us: teller transactions and payments. Therefore, I will be

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[28] Source: EFMA, Dsitribution Channels magazine (2007) ; Branch Productivity in Europe,Finalta/Efma

able to conclude that yet the main channel for products sales, especially loans remain branch network. In order to have clearer picture for majority of transactions made in branch I have also analyzed the service part, respectively routine/simple transactions and payments. The aim of these analyses was to see the volume of these transactions performed by cashiers and service staff, as well as see the possibility to move these transactions to other less costly channels, respectively electronic channels. In order to make this study more comprehensive I have also analyzed the costs structure for traditional and electronic channel transactions. The analyses prove how electronic channels help reduce the costs for both banks and customers.

2.1.3. Analysis of the transactions type performed in branch

From the analyses below performed in Bank X, we see that over 60% of transactions, respectively 50% of the staff are engaged to routine transactions, majority of them can be performed by other alternative channels, ATM's, E banking and Call Centre. Therefore, the core question here is: whether these transactions can be performed in electronic channels? The answer is yes! Majority of these transactions can be performed in other channels: cash withdrawals can be performed in ATMs, while other payments, such us utility and diverse transfers through E-banking and Mobile Banking channels.

Figure 9: Type of transactions in branch, study performed in Bank X (Kosovo)
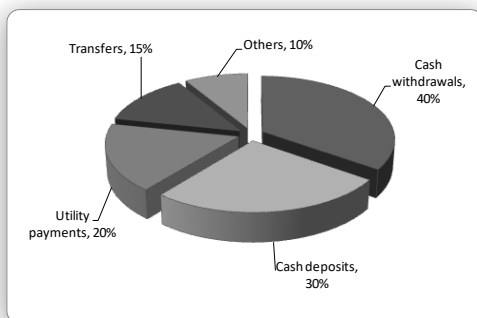
In order to have more comprehensive study, I will also present the results from Global Consumer Banking Survey 2012.[29] According to this survey, customers want the flexibility to use different channels for different transactions. Banks need to let customers personalize their distribution choices, with different cost and accessibility options. Internet banking is now customers' preferred way to access account information's. The huge success of online banking can be attributed to its convenience and accessibility. In most markets, internet banking is also the most popular channel for customers undertaking simple transactions such as paying bill. Despite the success of internet banking, customers around the world agree that access to branches and branch staff remains crucial to overall satisfaction. This is especially true when it comes to complex transactions, which customers in all markets prefer. The picture is more varied for advice on products and services.

Figure 10: Preferred method for simple transactions- EU
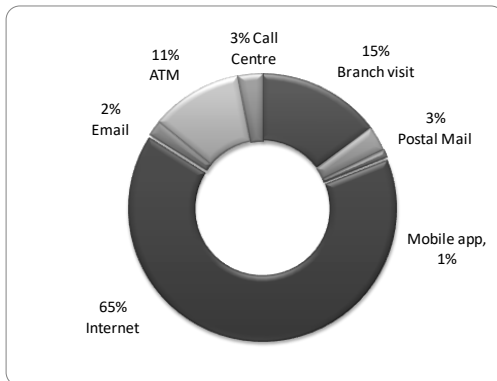
Figure 11: Preferred method for complex transactions- EU

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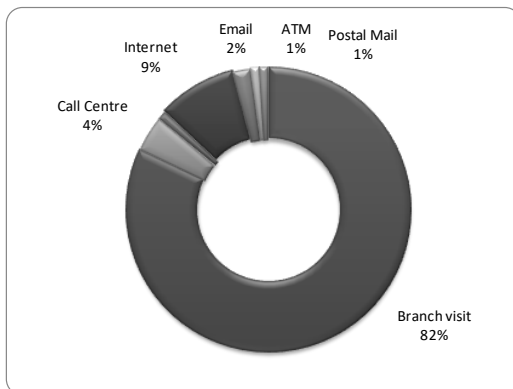
[29] Global Consumer Banking Survey 2012,ERNST & YOUNG

Additionally, "Finalta" study also analyzes the incentive scheme for Branch Managers. Branch Managers leadership are the key role for successful Retail Banking. Based on the study done by Finalta (Financial Service Benchmarking, London), European Branch Managers bonus depends greatly on sales. On average, 64% of branch mangers bonuses depend on sales targets being achieved, 12% on costs, 11% on customer service, 6% on staff satisfaction and 10% on other factors (generally risk or specific strategic initiatives).

Figure 12: European Branch Managers MBO's and bonuses criteria;
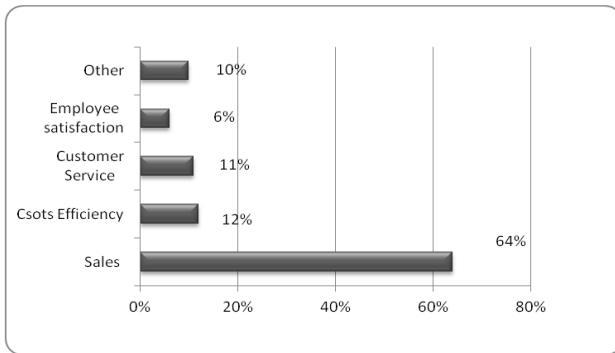
In addition, I have also analyzed the bonuses scheme in Bank X (see below figure 13). Analyzing, the above "Finalta" study results, and branch managers' bonuses scheme in Bank X, I can conclude that similar criteria's are applicable for Branch Managers bonus scheme in Bank X as well. However, there is a slight difference on credit quality and regulatory requirements. Yet, as the banking channels strategies and trends are changing, the criteria's on the incentive schemes should be modified, accordantly. As the banks are moving and shifting the focus to more electronic channels, the incentives should also linked to usage of alternative channels, such us: E banking sales and usage/turnover, number of ATM transactions, number of payments through POS's etc. What the banks staff needs to work on is advice customers to use more ATMs, E banking and Mobile Banking, while in-branch staff must be focused more on higher value-added transactions which cannot be performed through other banking channels, i.e. higher volume loans, mortgages, consultation and financial advises.

Figure 13: Branch Managers MBO and bonuses criteria in Bank X;
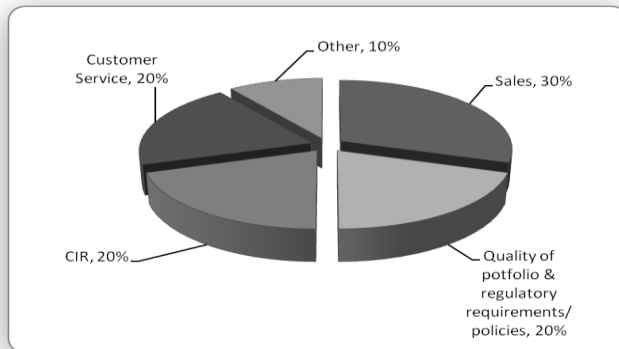
2.1.4. The future of Bank branches

We all are aware that branches are most expensive channel. The cost structure of branches, starting from operating costs: staff expenses (i.e. hiring and training), facilities (electricity, heating etc.), security costs including cash dispensing , and at the other side capital expenditure, are putting pressure on the cost/income ratio of many retail banks, which is considered to be one of the key performance ratio for a successful bank.

There are couples of reasons to believe that branches will remain one of the main distribution channels even in the future. Why they will still exist?

Customers still want to visit branches. Even though this also depends on various countries and cultural habits, customers still prefer face to face interaction, especially for higher ticket loans, like mortgages, financial advices and investments opportunities. In addition, in many countries legal framework is not harmonized with customer's adoption strategy. For example, to open a bank account legally customers are obliged to be present in branch in order to prove identification, despite the fact that there might be online functionality for account opening process.

Bank branches, are now considered as a way of securing the loyalty of existing customers and acquiring new ones. Having said that before, the branches of today are not the same as yesterday. The branches are now one of several components in multi-channels strategy,

human contact, a warm welcome and offering advice. Naturally, the trend towards opening branches places greater emphasis on automation. In other worlds, current developments concern both content and form. Branches will not disappear, but they will change over the time [29].

Whilst bankers all agree on the predominant role played by a branch in terms of distribution, it is remarkable to analyze the different channels. Below I will explain the role of other banking channels: Automatic Teller Machines (ATMs), E-banking, Mobile Banking, Call Centre, as well as statistics on regard to internet penetration/usage in Europe, worldwide and E-banking penetration, in particular.

2.2.   Automatic Teller Machines – banking channel

2.2.1.   Automatic Teller Machines - Definition

Automatic Teller machines (ATM), also known as a cash point is a computerized telecommunications device that enables the customers of a financial institutions to perform the transactions without the need for a cashier. There are two primary types of automated machines, the basic one allow the customers only to withdraw cash and receive a statement report, while the more complex machine accept deposits and other services as well. An automatic teller machine (ATM) allows bank customers to conduct their banking transactions from almost every automatic teller machine in the world.

The customer is identified by inserting a plastic card with magnetic strip or chip that contains a unique card number and some additional information's such as an expiration date or CVVC (or CVV). Authentication is provided by the customer entering a personal identification number (PIN). As the new technologies are extremely fast enhancing, there are also new services in a long-predicted move towards the Smartphone becoming a digital wallet. The newest ATM at Royal Bank of Scotland operates without a card to withdraw cash up to £100. They are given a six-digit code to enter into an ATM and release the cash. (Source: ATMIA, ATM industry associations global).

2.2.2. Automatic Teller Machines - History

The history of the ATM often is open for debate, since the cash dispenser's development occurred long before the machine was put into use. That written, most historians agree that Barclay's in the London was the first to deploy an ATM in 1967. It wasn't until the mid to late 1980s that ATMs gained wide acceptance. Estimates developed by ATMIA (ATM Industry associations global) place the number of ATMs in use currently at over 2.2 million (2010), or 1 ATM per around over 3000 people in the world[30].

From 1967, when the very first ATM was installed in London, it took 33 years (until 2000) for the ATM industry to reach the 1 million ATMs around the world. To reach 2.2 million, it has taken only 10 years. Thirty-three years to install 1 million ATMs, while ten years to install 1.2 million ATMs shows how fast the ATM network is growing in the recent decade.

2.2.3. ATM Network Development in Kosovo

The number of ATMs grew quite fast in our market as well. The figure below shows the number of ATM development over the years. As we can see the number is growing rapidly, or almost 100 % over the 5 years period, indicating that usage of self-service channels is growing very fast, which is also linked to the level of education and trust in electronic channels.

As I stated above, Kosovo started developing its banking sector and payments infrastructure from scratch after the war in '99, much later than the countries in the Southeastern and Central Europe, however the outstanding progress has been made, not only on the number of banks and variety of products offered, but also developments of channels and usage.

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[30] ATMIA (ATM Industry associations global)

Figure 14: Number of ATM's by years in Kosovo
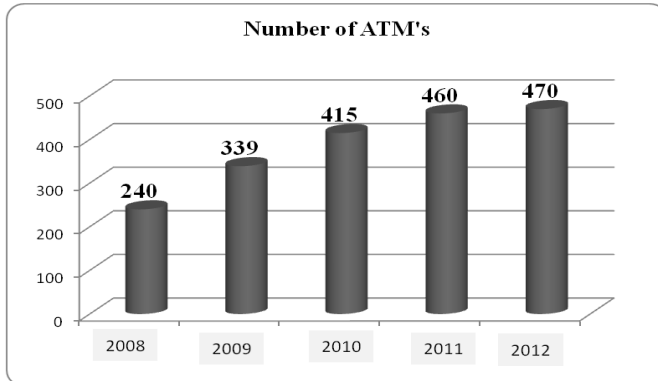
2.2.4.   Comparison of ATM's network- Kosovo with other countries

Following I will present the number of ATMs in different regional countries, even though this cannot be considered as an indicator for comparison purposes due to the fact that there are different parameters which leads to the appropriate number of ATM devices such us: number of population, country area and density, accessibility, number of transactions per ATM etc.

Figure 15: Number of ATM's by countries
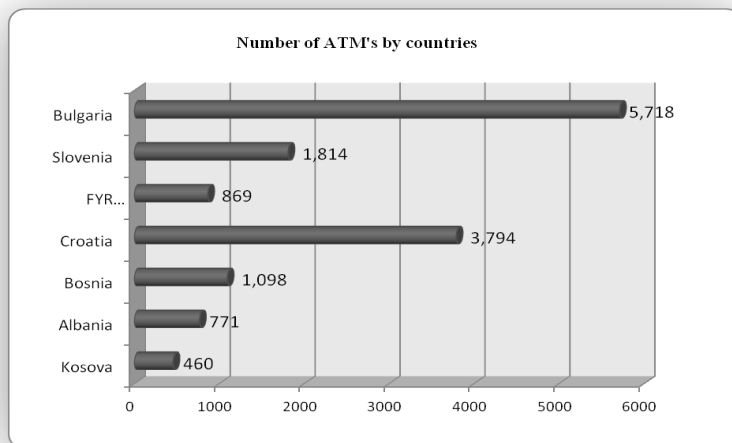
Even though, we see that there is a huge progress made on regard to ATM and other channels developments in Kosovo, yet, comparing with other regional countries, we see that still we are quite behind other regions. As we can see from the table 7 (see below),

Kosovo has the lowest number of ATM per inhabitants, respectively 1 ATM per 4,565 inhabitants, which is almost four times lower then Croatia, Slovenia and Bulgaria. The best ratio from the countries shown in the table has Slovenia, 1 ATM per 1,130 inhabitants.

Table 7: Number of ATMs in different countries

	Kosovo	*Albania*	*Bosnia*	*Croatia*	*FYR Macedonia*	*Slovenia*	*Bulgaria*	*Turkey*
Population	2,100,000	3,195,000	3,843,000	4,489,409	2,057,284	2,050,189	7,504,868	73,000,000
Area (km^2)	10,887	28,748	51,197	56,594	25,713	20,273	110,879	783,562
Density (km^2)	193	111	74	78	80	101	68	94
ATM devices	460	771	1,098	3,794	869	1,814	5,718	27,649
Number of ATM device per inhabitant	**4,565**	**4,144**	**3,500**	**1,183**	**2,367**	**1,130**	**1,312**	**2,640**
ATM per 100 km^2	4	3	2	7	3	9	5	4

Source: CBK Annual report, 2011

In order to make the study more comprehensive, I have also analyzed the average ATMs in EU area. In 2011, there were 437,400 Automatic Teller Machines (ATMs) in the EU-27, an increase of 1%, or almost 4,100 units since a year before. The number of people per ATM in Europe fell to 1,148.

Germany, Spain, France, and the UK combined, account for 60% of all ATMs in the EU. The ATMs are also used more frequently: the number of transactions in the EU grew on average by 1.3% in 2011; however the number of cash withdrawals grew only by 0.3%[31].

As far as convenience and accessibility of banking services in EU countries are concerned, Portugal leads in term of number of ATMs per inhabitants, the parameter being 620. At the same time the least number of inhabitants per ATM was registered in the Chezk Republic, Sweden and Poland. In each of these countries there are between 2,400 and 2,900 inhabitants per device[32].

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[31] Banking Sector Performance, EBF 2012;

[32] European Banking Federation, EU Banking Sector: Facts and Figures,2010

Figure 16: Comparison of inhabitants per ATM's in different countries

Number of inhabitants per ATM device

Country	Value
Bulgaria	1,312
Slovenia	1,130
FYR Macedonia	2,367
Croatia	1,183
Bosnia	3,500
Albania	4,144
Kosova	4,565
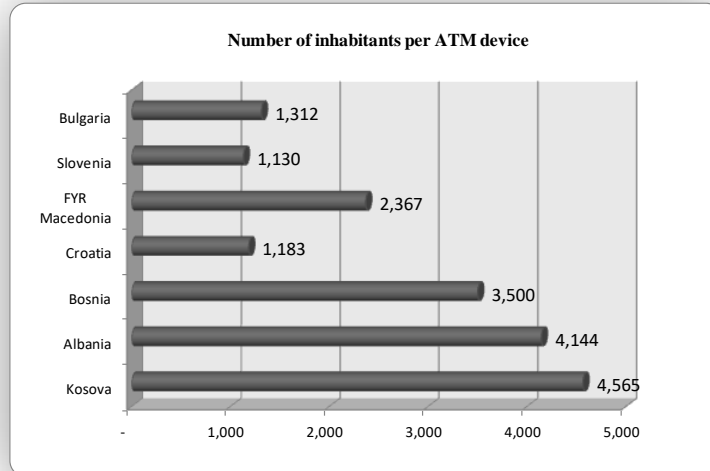
There is no official benchmark on regard to the number of ATM's in the respective region. The figure above summarizes the number of inhabitants per ATM. As shown in the figure above, in Kosovo there are 4,565 inhabitants per ATM. However, this ratio is much depended on density in the respective country. As we see in the table above (Table 7), Kosovo has the highest density, 193 inhabitants per km^2 compared with other countries.

Apart from the ATM network, the outstanding expansion is made on number and usage of point of sales (POS's), indicating that cash economy is being reduced and usage of alternative channels has been increased.

Figure 17: Volume of deposits per inhabitant, Kosovo

Volume of Deposits per inhabitant

Country	Value
Bulgaria	3,197
Slovenia	11,462
FYC Macedonia	1,687
Croatia	8,119
Bosnia	1,665
Albania	1,844
Kosova	1,000
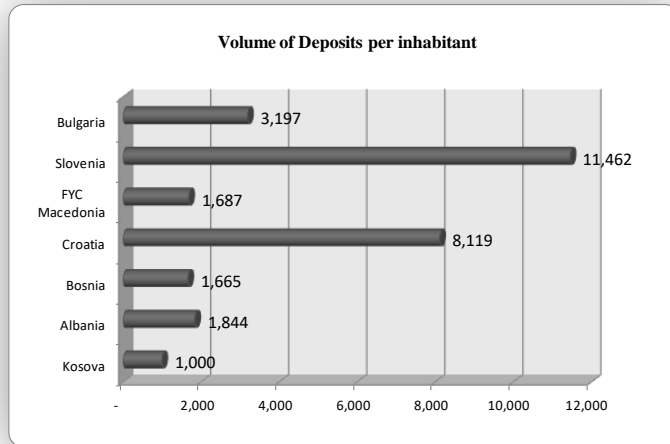
Figure 18: Volume of loans per inhabitant, Kosovo

Volume of Loans per inhabitant

Country	Value
Bulgaria	3,456
Slovenia	16,798
FYC Macedonia	1,478
Croatia	8,228
Bosnia	1,952
Albania	1,108
Kosova	762
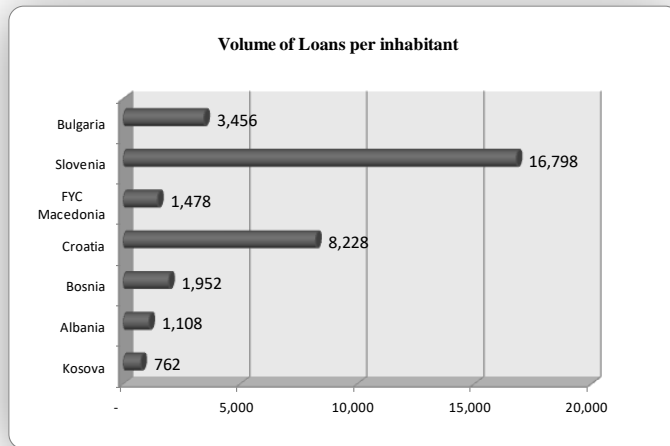
As presented above, similar to number of different channels per inhabitant, the same position stand for volumes of deposits and loans. Kosovo has the lowest volumes per inhabitant, 1000 euro deposits per inhabitant, respectively 762 euro volumes of loans.

2.3.   E-Banking as an alternative Distribution Channels

In today's society, globally, customers more than ever correlate a bank's value to the services it provides online. With the growing number of internet users, many banks use internet banking strategy and variety of services in order to remain competitive, aiming to attract and retain customers with enhanced online services.

In the recent decade, many banks started to use the internet banking not only as an innovative banking channel, but the channel/tool to attract customer acquisition, increase customer satisfaction and convenience, as well as approach to optimize costs and enhance profitability. Internet Banking seems to be part of the noticeable banking strategies for new entrants in the banking sector.

By integrating business channels and customers point of view, expanding self-service functionality and improving web site security, financial institutions are creating a seamless online banking experience. Worldwide, online banking is a critical factor of any bank business. This is becoming competitive weapon for financial institutions. More than ever banks customers want to conduct more transactions online. More than ever before, banks are promoting the E Banking as a component of their multichannel strategy and competitive advantage.

Looking at the Kosovo market, E banking channels is quite new in the Kosovo financial market, whereas worldwide the usage of internet banking is much higher in comparison with our market. However, in the recent years, we see the outstanding progress on regard to the speed of developments in e-banking channel, yet, it is far behind the EU internet banking market. I can conclude this by analyzing the growing trend showed in table 4 (see above). According to the data presented the number of e-banking users is growing continuously year on year. In 2008 there were only 13,051 e-banking users, despite the fact that banking sector started in 2000. From 2008 to mid 2011 the number of e-banking users reached 68,992 respectively 429% increase.

It goes without saying, that the number of e- banking users is very much linked to the internet penetration in the respective countries. In the table above I present the usage of Internet in European Union, as well as comparison with other part of the world. As we can see, the penetration in European Union[33] is much higher comparing with other part of the world, 73 % of population, whereas rest of the world is 31.3%. World average is 34.3%. I have also analyzed internet penetration in different countries of the SEE countries (presented in appendix 2).As shown, according to the figures from Internet World State Statistics, internet penetration is Kosovo is only 20.5%, which is quite lower compared with all other regional countries. Consequently, the e-banking users in Kosovo are much lower, although the recent trend is very promising.

Figure 19: Number of Internet Users and E-banking users by countries
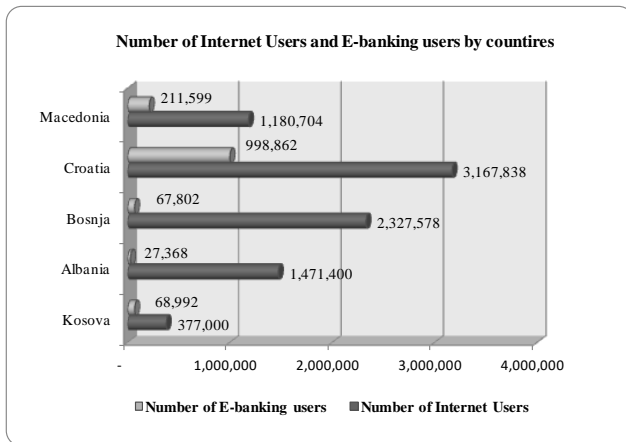
Internet Penetration in European Union[34]						
WORLD REGION	**Population (2012 Est.)**	**% Pop. of World**	**Internet Users, 30-June-12**	**Penetration (% Population)**	**Internet % Users**	**Facebook 30-Sept-12**
European Union	503,824,373	7.2 %	**368,021,986**	73.0 %	15.3 %	187,340,360
Rest of World	6,514,022,549	92.8 %	**2,037,496,390**	31.3 %	84.7 %	749,829,460
TOTAL WORLD	7,017,846,922	100.0 %	**2,405,518,376**	34.3 %	100.0 %	937,169,820

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[33] Internet penetration in Europe (total) is 63.2%, for more details please see appendix 2.
[34] http://www.internetworldstats.com/stats.htm

Figure 20: Internet Penetration in European Union

Internet Penetration in European Union, June 2012

Rest of the world	31.3%
World Average	34.3%
European Union	73.0%

0.0%   20.0%   40.0%   60.0%   80.0%
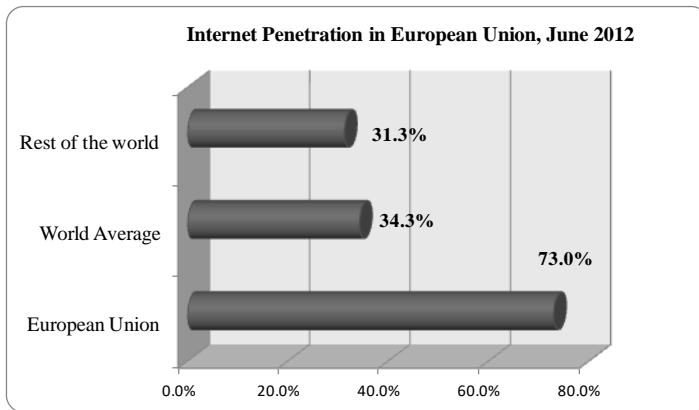
The Netherlands is the country with the strongest internet banking penetration in Europe, 66.3 percent of Dutch internet users' access online banking sites. Globally, 423.5 million people accessed online banking sites (during April 2012), reaching 28.7 percent of the internet audience. In North America, 45 percent of internet audiences accessed banking sites[35]. Globally, 59% of internet users check their bank account online[36].

In conclusion, internet banking as a banking channel has globally experienced strong growth in recent years; yet, internet remains secondary to branches and call centers as a business generator and customer usage. Ultimately branches remains good generator for the business growth, especially in regions where customers are either insufficient familiar with internet and/or low penetration in internet (i.e. Kosovo), or customers like more taking the financial advice.

2.4. Mobile Banking

Continues sophisticated mobile technology becoming a perfect chance for banks to improve service, reduce costs and increased customer engagement and satisfaction.

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[35] Source: STRATA, http://www.statista.com/
[36] http://www.factbrowser.com/tags/online_banking/

As it undergoes significant challenges, there's been no better time for alternative thinking within the industry[37]

Mobile banking (also known as M-Banking) is a term used for performing check balances, account transactions, payments, credit applications and other banking transactions. Mobile Banking as a banking channel is old more than a decade ago. At the beginner, mobile usage by banking and financial world was used only for the SMS, known as SMS banking. However with the new advanced technology, mobile banking channel is offering many dynamic options and functionalities. During the decade, starting from 2000 year, there was an outstanding progress on regard to Mobile Banking. Mobile Banking advanced from providing basic text messaging services to more advance services, such are: checking balance, making transactions, view credit history, fund transfers etc.

Apple's initial success with I Phone and the rapid growth of phones based on Google's Android have led to increasing use of special customer programs, different applications downloaded to the mobile device.

Customer and banks have started to transform the mobile phone into a "personal banking assistant" for customers to help them manage their accounts anytime, anywhere without an expensive mobile phone upgrade.

On regard to statistics for Mobile Banking, in the EU5 (France, Germany, Italy, Spain and the UK) 30 million people accessed a bank accounts via their Smartphone (in July 2012), an increase of 85 percent compared to a year ago. The UK had the largest user base with 7.3 million Smartphone owners accessing bank accounts in the month, nearly twice as many as just one year ago. Spain showed an even stronger increase with 113 percent more users making use of service compared to previous year[38]. While, Mobile Banking is relatively new in our market, we have lack of data on regard to Mobile Banking in Kosovo and other regional markets.

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[37] The Economists ,Retail Banking in Europe, London; Todd Maclin, Co-chief Excecutive Officer, Chase Consumer and Community Banking,JPMorgan Chase;

[38] Source:comScoreMobiLens.

2.5.   Mobile Bankers/Sales Agents network

Mobile Bankers are defined as a distribution channel with the purpose of increasing branch sales force by selling bank products and services. An agent helps sell bank product/service, but will not take ownership of what they are selling at any time. Agents usually work on commission taking a percentage of the total sales made by them. This channel is quite developed in Kosovo market as well, however as a benchmark[39] can be analyzed the Bank X, where Agents network is very well developed, and around 20 % of sales comes from the agents network.   Sales Agents network is perfect motivation concept. A mobile banker's activity consists of making regular/daily - visits to market vendors. The Mobile/Agents network is very cost effective channel as they do not have offices in the branch, consequently do not have other associated costs, such us: space, desk, computer etc. With the new channel "Mobile bankers", customers do not have to visit a bank's office in order to get a professional consultation on our retail services. Customers will get a free of charge consultation at place and time convenient. The role of the mobile bankers is to: visit customers at time convenient for them, helps customers to prepare the necessary documents in order to apply for the bank service and brings the customers documents in the Bank office instead of customer come. Agent's network is very cost effective channel, as there are only costs linked to the sales results and no other overhead costs associated with them.

2.5.1. Direct Mail - sales and promotion tools

Direct mail involves sending an offer, message, reminder or other item to a person at a particular address. Direct mail is a popular medium because its permits very selectively target group, usually they are personalized, are flexible, and allow early testing and response measurement.

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[39] Benchmarking as a technique for identifying core competences in key areas against major competitors, it may also be used a quality measure, is a process of comparing performance with those of other companies in order to gain insights into better (or best) practices used by others with a view to adopting these.
Source: Business ECONOMICS, Mark Cook & Corri Farquharson, School of Business, University College Northampton;

Figure 21: Steps in Developing a Direct Mail Campaign

| Set Objectives | Identify Targets | Define the offer | Test the elements | Measure the results |
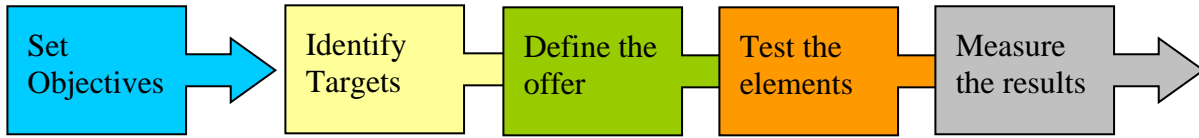
Source[40]: Successful Direct Marketing Methods, 6th ed.(Lincolnwood,IL: NTC Business Books,1996)

Also known as a mail shot, this type of marketing can produce sales on a local, specific bank branch, national, or even global scale. The businesses would send out, flyers, leaflets, brochures or catalogues (often targeted to particular consumers) selling different product/service. Any interested receivers of the mail would make an order through the contact details/order form that would be included[41].

Although very effective, there is some cost involved but is considerably cheaper compared to other sources of marketing such as advertising. Poorly targeted mail shots can also damage the image of the business; therefore it is very important to build appropriate mailing lists before the direct mails were sent. Direct mail can be complied and sent directly from the business, or can be used a professional service to distribute information; however the costs will be much higher. This method is very common in Raiffeiesen Bank as well, where in monthly basis there are thousand direct mails distributed to the customers. One thing which is very important during the direct mail process is to make sure that same customer does not receive the same offer every month, or different offers from the same bank consisting different products. On this regard, proper CRM system (Customer Relationship Management) is curtail, otherwise it may cause the customer dissatisfaction and complains.

2.6.   Call Centre as a banking channel

In the recent decade, selling product and services through Call Centre is becoming increasingly popular. Similar to direct mail, telemarketing allows sales to be made on a local, national and global scale, although the costs will increase with the time and distance of phone calls.

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[40] Direct Marketing Methods, 6th ed.(Lincolnwood,IL: NTC Business Books,1996)
[41] Marketing Management, Philip Kotler, pg 323

A decade ago, most companies didn't even consider the revenue potential of inbound customer service calls. But, today call centers generate up to 25 % of total new revenues (credit cards and cash/small ticket loans) and up to 60% for some telecommunications companies. Initially, the top priority of agents in this call centers was resolving the issues. But, today, Call Centre telebankers are also encouraged to initiate conversation to uncover the needs of customers, and consequently this can lead to sales of new products. Within few years of starting to implement from service to sales strategy, most bank call centre's that already deliver high quality service can boost they sales levels to at least three core products for every 100 calls[42].In order to have the clearer picture on regard to the services provided by Call Centre, especially on the Banking Industry, I am attaching below main groups of serviced provided by Call Centre in Raiffeisen Bank Kosovo[43].Analyzing the picture below, we see that one of the main pillars of the Call Centre is telemarketing and outbound calls. If number of calls is analyzed, there are the same numbers of outbound calls as inbound. However, in the recent years, the strategy is more oriented toward using more IVR (interactive voice response) for providing most of the services that the inbound telebanker offer today, while, telebankers use free capacity for more revenue generated activities, respectively sales activities.

Figure 22: Group of Service provided by Call Centre

<u>Four Groups of services provided by Call Centre</u>
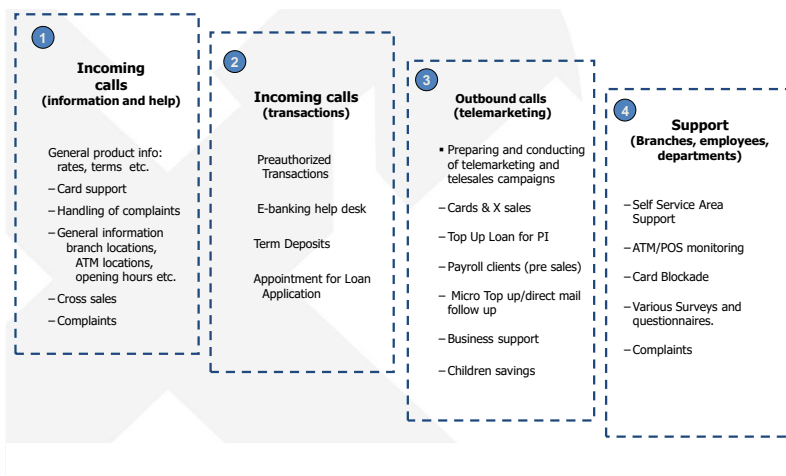
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[42] McKinsey on Banking :Using call Centre to bost the revenues'2006

[43] Raiffeisen Bank Kosovo; Call Centre unit;

In order to make the study more comprehensive I will further present the impact of social networking in the banking industry. The information's provided below are taken from the survey performed by Ernst & Young, more specifically Global Consumer Banking Survey 2012.

2.7.   The role of Social networks in the banking

Social networks are becoming important sources of banking information, especially in emerging markets. Social networks are also magnifying customer voices, increasing their power to act as advocates or critics. Globally 44% respondents use social networking sites as a source of banking information. Customers in emerging markets are particularly likely to use social media to interact with their banks. Worldwide, almost one-third of customers who use social networking sites to interact with their bank also use them to comment on the service they have received and to pass on news about good offers.[44]

Figure 23: Usage of social networking in relation to banking activities

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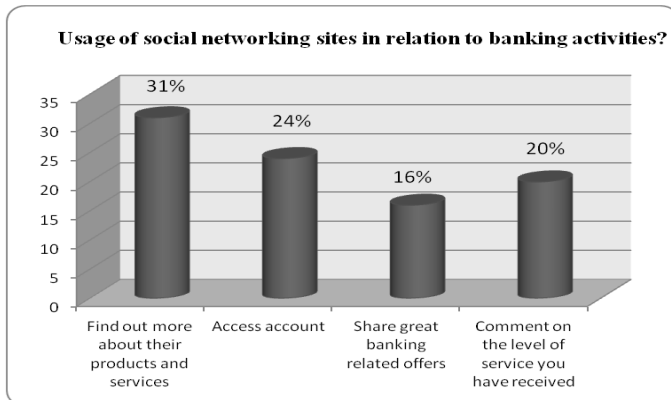
[44] Global Consumer Banking Survey 2012,ERNST & YOUNG

3. Costs of transactions , E-banking and ATMs versus in-branch

Following, I will analyze the costs per unit transaction through different channels, traditional and electronic channel. Consequently, draw the conclusion on the potential costs savings for the banks, as well as customers.

According to the analyses made in bank X, estimated bank costs per routine cash transaction in branch is 1.50 EUR, compared to 0.60 EUR in ATM. As seen, the difference in costs for one transaction is 0.90 EUR. The analyzes found that on average online transactions costs are approximately 2.5 times less than those made by branch teller. However, another factor which needs to be considered is the functionality of ATMs in the banking sector in Kosovo. As presented above, there are 460 ATMs placed around the Kosovo, while only one ATM provides the cash deposit function. Thus, when I calculate the costs per transaction, and draw assumption on possible costs savings in case of bank X, I consider only cash withdrawals and exclude cash deposits, at this stage. Another important factor to be considered is also the amount of cash withdrawals per transaction, due to the fact that there are different limits applied across the banks. Nevertheless, according to my analyses in bank X , over 80 % of the transactions performed in branch are below the limit allowed to be performed through ATM machines, indicating that there is a possibility for banks to move these transactions to less costly channel, for bank and customer as well.

Table 8: Estimated Unit Costs per transactions through different banking channels

Unit costs per transaction (cash withdrawal) in different distribution channels		Unit costs per transaction (payments) in different distribution channels	
Channel	Unit costs	Channel	Unit costs
In-Branch	€ 1.50	In branch	€ 1.50
ATM	€ 0.60	E-banking	€ 0.50

*Analyses made in the Bank X. The costs per transactions various from bank to bank due to different processes and systems across the banks, therefore it is difficult to calculate the possible costs savings for overall market;

The table shows significant difference on costs in different channels, transaction costs performed in branches are more than doubled compared to electronic channels, ATMs and Internet Banking. It is very reasonable since it is not that require human resources costs only, but also facilities costs, costs of offices, maintenance, securities, rent, utilities etc.

Analyzing the bank X, there are over 1 million cash withdrawals yearly executed inside the bank branches. Assuming that at least 20% of these payments move to Automatic Teller Machines (ATMs), the bank will decrease transactions costs for approximately € 180 thousands yearly. Consequently, there will be free resources capacity for more value-added transactions and financial advisories, which will result with better customer services, efficiency and profitability. According to CBK quarterly report on cash and non cash payment, in overall market are over 1.2 million cash withdrawals per quarter inside the banks, nearly 5 million per year.

Furthermore, I have also analyzed the simple domestics' payments through different banking channels (see above table 8). As seen, online bank payment transaction, respectively E- banking transaction costs approximately 3 times cheaper than traditional transactions costs concluded in the branch network According to CBK quarterly report, number of payment processes using e-banking is 424,273 transactions during 2011, whereas number of interbank payments is 4.2 million during 2011.[45] The expenses for the domestic payment unit costs include the following unit costs components: development, HR related costs, IT operational, marketing, facilitiies, etc. In branch and call centre, mosts of the costs are connected to the human resources activities (remuneration, staff management, work-place expenses/offices, fixed assets depreciations).

If we analyze the overall payments in the Kosovo banking market, we see that majority of payments are still performed in the branch network. According to the Kosovo Payment Report , during 2011 there were over 4.2 million interbank payments performed , while number of E-banking still remain low, only 10 % of transactions are performed through the E-banking (source: Quarterly report on cash & non cash payments, CBK).

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[45] Quarterly report on cash and non cash payments, CBK, 2012

In order to make the conclusion on profitability, some investigation on the income side has to be made as well. For the banks, fee incomes from the ATMs and E-banking transactions are lower compared to in-branch, while less costly for the clients. Fee for cash withdrawal inside the branch in Bank X is 0.20 EUR, whereas in ATM is 0.05 EUR, meaning that bank will earn 0.15 EUR less for the transaction performed in the ATM, but at the same time difference in costs is much higher, respectively € 0.90 per transaction, consequently net income is higher.

In summary, I might conclude the following:

- Banks can reduce costs by increasing usage of electronic channels. Electronic channels banking services can impact cost savings for the banks and higher profitability, as the unit costs are lower;
- Electronic channels provide costs-savings for the customers as well, as consequently the fees for the clients are cheaper in online channels. As presented above, ATM withdrawal fee is three times less compared to in-branch withdrawal.

4. Integration among different banking channels

Banks are developing their multichannel distribution strategies by defining more focused mission and roles for their channels. The development of a multichannel distribution strategy is based on three main phases:

- the development of new channels,
- the promotion of new channels usage by customers,
- the integration among channels ;

In terms of channels operation and roles, in most of the cases the branch is the predominant channel and owns the majority of bank's customers. ATMs, Internet and Phone Banking/Call Centre are alternative and more supportive channels to carry out the basic transactions, focused on cost to serve reduction.The war to win for retail banks is to be excellent in distribution. As such, the banks distribution models need to get closer to the retail distribution models, combining better-cost efficiencies and optimizations with effective product ranges and services.

The branch will remain the groundwork of retail distribution however it will be in the different approach. Banks will have to "re-invent" the branches to drive down their operating costs while generating more sales. The branch of future requires customer-oriented branch personnel, supported by new capabilities in terms of informing, advising, selling and serving the customers, sustained by an integrated CRM (Customer Relationship Management) solution. The integration among branches and other distribution channels will be a key success factor in the distribution model of the future, because it will allow banks to:

- Effectively meet customer needs and preferences by offering different choices of distribution channels, as per customers convenience;
- Use branch for higher value transactions, financial advisory approach and relationship management ;
- Leveraging cost optimization opportunities arising from low cost innovative channels;

The integration among branches and other channels should provide the customer with a consistent customer experience and match the bank mix of products/services and channels with his needs and preferences. Within integrated commercial actions the branch will still have the most important role for the overall success of the initiative.

Figure 24: Branch integration with other channels
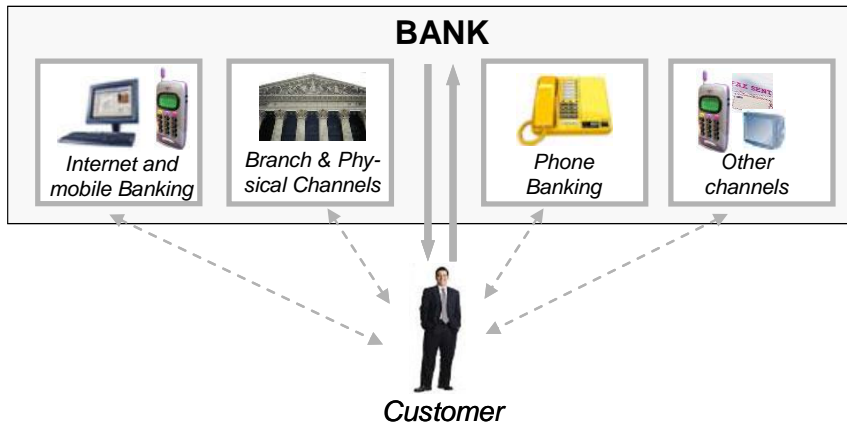
5. **Three Enablers to Win the Distribution Game**

Below I will further analyze three enablers to win the distribution game, or saying on the other words few important areas of making the retail banking successful:

      5.1.   Sales Organization

      5.2.   Distribution Footprint

      5.3.   Sales Force Effectiveness

5.1.   Sales Organization

"People create organizations, and people can destroy them. The most valuable commodity in business is not technology or capital, but people". Effective management of people is a challenge managers will increasingly face in the 21st century.

Return on talent- For decades companies have utilized key metrics like ROI and ROA (return on assets). Twenty-first century organizations will utilize a measurement called ROT (return on talent). ROT is expressed as follow: ROT = knowledge generated / investments in talents. ROT measure the payback from investments in people. It shows if

managers are hiring the right people, and how effectively they use them to achieve businesses success.[46]

A Sales Organization Must Be Focused on:

> ➢ As few management layers as possible
>
> ➢ Each person has exactly one superior
>
> ➢ Management span allows for effective control
>
> ➢ Clear roles and responsibilities

5.2.   Distribution Footprint

When it comes to new branch buildings different approaches are required. Below are some specifics on this regard; however on the last part of this chapter I will present the case of new branch build/opening in Raiffesien Bank Kosovo, in order to get the clear understanding on the evaluation criteria's and how the positive decision on new branch opening is taken. Following, I present some general criteria's:

Branch penetration and branch density in your country work in your favor – <u>Build.</u>

<u>Expand smartly-</u> Although the distribution is sub- scale, your country already has high branch density. Utilize alternative distribution channels such as DSAs, E-banking, and ATMs.

<u>Move in line with competitors-</u> You have sufficient distribution. Expand only if your competitors are expanding and/or you wish to increase your market share substantially.

<u>Don´t build-</u> Your distribution scale is sufficient to compete with the big competitors – you are one of them.

5.3.   Sales force effectiveness

Each company needs to define the specific objectives its sales force will achieve. Increasingly, companies are setting the objectives for sales representatives based not only on sales volumes and profitability targets, but also on their ability to create customer satisfactions[47].

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[46] Management 21 C, Financial Times /Prentice Hall, Subir Chowdhury (pg.10)
[47] Kotler 2001, Marketing Management, pg.300.

Effective management of the sales force is needed to implement the companies' chosen sales force design and achieves its sales objectives. Sales force management covers the steps in recruiting/selecting, training, supervising, monitoring and evaluation (see below figure 25).

Figure 25: Sales force management process
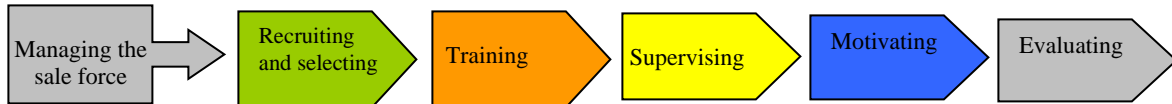
Following, I will present highlights of a project implemented in Raiffeisen Bank Kosovo. The project called Sales Force Effectiveness consisting of 5 main pillars[48]:

Figure 26: Sales Force Effectiveness process

♦   Target setting
♦   In branch measurements
♦   Proper sales tools and sales management
♦   Coaching
♦   Motivation and Compensation program

Some ambitions sales staff is self-starters who will put forth their best, effort without any special coaching. The majority of sales staff, however, requires more encouragement and special incentives. This is especially true of field selling, which can be frustrating because sales people usually work alone, keep irregular hours, are often away from home and sometimes lose large orders they have worked hard to obtain (Kotler pg 307).

When it comes to motivation tools, in Raiffesien are different financial and non financial motivation tools. Reward and recognition program is very well accepted, it is not only the financial bonuses a motivation tool for staff, there are also other non-cash awards which

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[48] Raiffeisen Bank Kosovo, SFE Project

are much appreciated by the staff, to name few: best seller of the month received the dinner with the management board, special certificate for best performing, weekend trip with family, a night shift off for a week for the best performing telebanker etc. However, it is very important to emphasize quite important factors on regard staff incentives, such us:

- Direct link between sales performance and reward;
- Wide compensation spread between high and low performers;
- Sales performance as main driver of rewards for sellers and managers;
- Individual (majority) and (small) shared component to support team cooperation;

Figure 27: Key Variables that influence Motivation[49]

INTERNAL (push forces)	EXTERNAL (pull forces)	
Characteristics of **The Individual**	Characteristics of **The JOB** (examples)	Characteristics of **The Work Situation** (examples)
NEEDS For security For achievements For power	**FEEDBACK** Amount Timing	**SOCIAL ENVIOREMENT** Supervisor Workgroup members Subordinators
ATTITUDES About self About Job About Supervisor About Organization	**WORK LOAD** Tasks Variety Scope	**ORGANIZATIONAL ACTIONS** Individual and group awards Training and development Pressure to perform
INTERESTS Hobbies, Travel, reading Sports	**DISCRETION** How job is performed?	

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[49] Management (book), "MEETING NEW CHALLENGES"; J.Stewart Black, Lyman W. Porter (pg 367)

6. New branch opening

The openings of new branches have a major impact on the assessment of the company itself. For this reason it is obvious that an accurate and all planning instrument needs to be developed and analyzed. The following parameters need to be considered, when the evaluation for new branch opening is made:

- Location of the branch (capital city, region, small region/town)
- Customer structure (small business, agro, corporate, individuals)
- Economic environment, un-employment rate, purchasing power;
- Competition;

And the fundamental question is: what nature of the business is expected from the new branch, whether the branch will be focused on the lending and deposits, financial advisory approach and relationship management or provides the simple basic transactions which can be also performed by other alternative channel, ATM, Call Centre and E Banking?

Additionally, the detail feasibility study needs to be done before the new branch is opened. Some of the key financial ratios on taking the decisions for new branch opening are given below:

NPV- One of the main factors for making the decision on new branch opening is NPV. The Net Present Value (NPV), also known as Net Present Worth of a Capital Budgeting project indicates the expected impact of the project on the value of the company. Projects with a positive NPV are expected to increase the value. Thus, the NPV decision rule specifies that all independent projects with a positive NPV should be accepted. When choosing among mutually exclusive projects, the project with the largest (positive) NPV should be selected. The NPV compares the present value of money today to the present value of money in the future, taking into consideration inflation.

"Break-even point" - The break-even point is defined as the point where sales or revenues equal with costs/expenses. There is no profit made or loss gained at the break-even point. This figure is important for anyone that manages a business since the break-even point is the lower limit of profit when setting prices and determining margins.

Payback Period- the Payback Period refers to the period of time required for the return on an investment to recompense the sum of original investment or, the amount of time that it takes for a Capital Budgeting project to recover its initial cost. When choosing among mutually projects, the project with the quickest payback is preferred.

The further analysis consists of: general information of the region, competition and customers, investments and organization/structure[50].

First part of the analyses is competition and customers. Following will I present the key evaluation criteria on regard to competition and customer target group:

- Market shares a general overview of the market shares according to each segment;

- Customers, the existing and target customer groups in the region;

- Location of the Branch -the special features of the district and infrastructures;

- Investment and Structure;

- Structure and Staff: How many employees are planned? Which tasks will they take over? Which organizational structure will be established?

New branch opening - Research study in Raiffesien Bank Kosovo

Below I will present a case study performed for new branch opening in Gjilani city in Raiffeisen Bank Kosovo. We will see that based on financial analyses made, projections for new sales volumes, new customers, investment and operating costs, resulting with the key ratios: NPV, PBP and IRR, the positive decision on new project is made.

Total investment	€ 75,000
PBP (Payback period)	1 year
Staff number	5-8
Total branch costs (cumulative over 5 years)	450 thousand (Operating Cost)
NPAT	Cumulative over the five years: 500 tsd €
Type of branch	Retail
Operative (date)	June'2011

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[50] Source: RBI/Raiffeisen Bank Kosovo, new branch opening (individual case study)

<u>General Information of the region</u> - Population/Area: Gjilan municipality has 133,724 inhabitants, covers an area of with 515 square meters and consists of 63 villages. It is located 47 kilometers southeast of Prishtina, 21 km from Vitia, 25 km from Kamenica and 23 km from the border with Serbia. Gjilan covers 6 % of Kosovo territory.

Gjilani has approximately 20 % of RBKO loan portfolio, respectively 20 % of deposits and there are averages of 30,000 teller transactions per month. Gjilani main city has 4 ATMs throughout the city.

<u>Economic outlook of the region (employment/unemployment)</u>: Estimated number of employees in public sector is 4.184 (Municipality administration, Health and Education, Police, TMK, PTK, KEK, Courts etc), while in private sector estimated no. is 11,166. There are another 25,000 people from Gjilan working abroad (out of country). As a strength factor for this region, we could consider privatized factories. There are 3,722 private businesses registered: trade 61.7%, production 11%, service/hotels 12.8%, transport and communication 7%, constructions 5.5%, etc.

<u>Competition (Existing local and foreign banks):</u> There are seven banks operating in Gjilan: ProCredit Bank, "Nova Ljublanska Banka ", BPB, Banka Ekonomike , TEB, BKT and three Micro finance Institutions : "FINCA", "KEP" and "Beslidhja".

<u>Organizational structure and staff</u>: Perhaps the simplest structure is the functional structure. This structure is one of the most common organizational structures in part because it separates the specialized knowledge of each functional area through horizontal differentiation and can direct knowledge toward the company's key products and services. Number of staff in the beginning will be five: Manager, business officers, two individual loan officers and one teller. The plans for next five years are to increase number of staff from 5 to 8 staff.

<u>Recommendation:</u>

The key fundamental question of this research study is: What is the main target group for new branch, what type of the business we expect from the new branch: simple/routine teller transaction or providing products and services that cannot be performed from other alternative channels (loans)?

<u>A: BUILD</u> - Based on development of the Gjilan branch, business potential (see appendix), existing Branch capacity, number of new potential customers, business growth, number of branches in comparison with other competitors, recent privatized companies, and in order to provide better customer service to our existing and potential customers, the new branch opening is recommend in Gjilani city. The new sub branch will be located in "Dardania"; it is old area of the city, residential zone with over 30,000 inhabitants, as well as industrial zone including few production, trade and service companies.

CHAPTER IV

FINDINGS AND ANALYSES OF INFORMATIONS

Kosovo has made outstanding progress in the last twelve years, especially in reconstructing the financial sector basically from the scratch and rebuilding confidence in it, much later than other countries in Southeastern and Central Europe. Moreover, the openness of banking sector to foreign competitors has shown to be an important component for a successful strategy of developing the efficient financial system and promoting economic growth.

As illustrated, even though Kosovo Financial Market is almost new after the war, and a decade of the non proper banking sector, there were different banking channels established, starting from the branch network as an old and the early channel, moving forward with the other alternative channels, such us: ATMs, POSs and Internet Banking. However, despite the fact that there was a huge progress made on regard to channels developments, yet, Kosovo remain behind in terms of different channels penetration per inhabitants/people, as well as number of transactions performed thru electronic channels remain quite low.

Electronic channels provide costs-savings for the banks and customers; by increasing usage of electronic channels banks can reduce costs and increase profitability as the unit costs are lower in electronic channels versus In-branch costs. Worldwide, role of branches gradually is changing.

The trend towards opening branches is greater emphasis on automation. Branches will not disappear, but they will change over the time, more space for consultation, financial advises and problem solving rather than regular transactions processing. More than ever, today's banking sector is faced with tough challenges. Worldwide, financial institutions continuously are increasing relying on self-service technology in order to meet these challenges, automate branch processes, and at the same time gaining a competitive advantage and enhancing profitability.

CHAPTER V

CONCLUSIVE CONLUSIONS

According to data and facts presented in the ATM (Automatic and Teller Machines) and branch network section, number of people/inhabitants per ATM in Kosovo is 4,565, number of people/inhabitants per branch is 6,796, and fewest POSs (Point of Sales) compared with the region.

According to the European Banking Reports, fact and figures 2011, the average standard in Europe Union is 2,300 inhabitants per bank branch (503 mio/215,000 branches). Austria has a highly developed banking sector. Access to banking services, measured as number of inhabitants per bank branch is among the highest in Europe, 1,673 inhabitants per branch, whereas the best ratio in the region has Bulgaria with 1,259 inhabitants per branch.

According to European Banking Reports, the number of people per ATM in Europe is 1,148. Germany, Spain, France, and the UK combined, account for 60% of all ATMs in the EU. Based on the Internet World Statistics, Kosovo has low number of internet penetration as well, respectively 20.5 % of the population or 377 thousand internet users. Consequently, number of E-banking users remains low.

Based on the CBK annual report 2011, there are only 68,992 E-banking users in Kosovo at the end of 2011, which is 20% out of 377 thousand internet users in our country. On regard to number of transactions performed thru electronic channels, the usage remains quite low. Based on the CBK quarterly report on cash and non cash payments, there are over 5 million yearly cash withdrawals inside the branch, majority of them can be performed in the ATM network. Likewise, according to the same report, number of interbank payments is over 4.2 million yearly (2011), greater part of them can be performed through E-banking channel.

RECOMMENDATIONS

Considering the above facts and figures, I recommend the following:

- **Banks should further develop, expend and enhance online channels -** Based on facts and figures, Kosovo has the lowest ratio on regard to number of people/inhabitants per ATM, per Branch, as well as very low number of E-banking users. However, building branches at this point is quite expenses, and it is difficult to achieve the Pay Back Period (time to recover the initial investments), therefore the future plans and strategies must be focused on less costly channels, respectively alternative and electronic channels. One of the future steps in the Banking sector are enhancing the self service areas, respectively building so called "bank kiosk". Considering that having Bank Kiosk is less expense than building an entire new branch bank, I recommend piloting Self Service Areas/Kiosks in some of the locations/places where the bank needs to be present, but not with the full range of products and services. As a potential location for having the Bank Kiosks are municipalities building i.e. Prishtina. The new financial kiosk terminal should have features and ability to do standard ATM transactions, in additions: money transfers, bill payments, cash deposits, statement printing**.** "Bank Kiosks" will reduce customer's waiting time and increase customer satisfaction, improve staff efficiency, enhance revenue-generating opportunities, and better customer service by offering 24/7 service to the customers and avoiding waiting time. As analyzed above, the current ATM network in Kosovo does not have the ability to provide cash deposits functionality, which is one of the major part of the transactions performed inside the branch network;

- **Streamline and efficient operations -** Banks must switch basics transactions from branches to other alternative and less costly channels, increase efficiency while use existing capacity for more complex transactions and financial advisory approach for customers.

- **Banks should plan awareness program for customers -**Taking into consideration the low usage of electronic channels in Kosovo, banks needs to work on awareness program, promote electronic channels through different campaigns, brochures, with the main focus on benefits and convenience of using electronic channels;

- **Re-price the transaction services** - I recommend that based on the costs per transactions banks should re-price the transaction fees, making them cheaper for the customers using ATMs, E banking and Mobile banking;

- **Changing incentive schemes for staff** - Changing the incentive schemes can also be a high effective way to move branch employees from fundamental tasks, i.e. cashing to actually driving revenue growth, i.e. loans;

- **Make branches more efficient -** Getting the staffing model right and optimizing operating hours are two of the main components. Analyze the volume of transactions by hours, identify peak hours, analyze the type of the transactions and whether these transactions can be performed outside the branch. The questions are: do we still need as many cashier positions while customers visit the branches less often and perform more routine transactions in the ATM, Mobile Banking and E banking. Branch re-organization and re-shifting of the positions to more values added business is recommended, more on lending, investment opportunities and financial advisories. Consequently operating costs will be reduced, bank efficiency will be improved and customer satisfaction increase.

In conclusion, even though the banks continue to develop alternative and electronic channels, physical branches will play a key role in the customer relationship. Branches will continue to be one of the main distribution channels, however they will look differently over the time, and teller counters will be replaced with self service area/24 hrs, more space for relationship management and financial advisors. To sum up, branches will always remain the heart of distribution, but, with the different role as today.

APPENDIX I

Key Financial ratios in order to decide for new branch opening:

Investment appraisal calculation

Name of the bank	Raiffeisen Bank Kosovo
Short Code	
Name of the Branch	Gjilan Retail Branch
Date of Branch opening	2011
Official in charge	Merita Gjushinca
Date	June'11

Investment Cost Structure in LCY eq.

Location: Gjilan

COST TYPE	AMOUNT	tenor of depreciation	depreciation
1. Building Investments	38,000		7,600
1.1. Purchase of premises			
1.2. Construction/Renovation	38,000	5	7,600
1.3. Others	0	5	-
2. Office equipment	31,000	5	6,200
3. Communication	1,000	5	200
4. IT	5,000		1,667
4.1. Hardware	5,000	3	1,666.7
4.2. Software	0	3	-
4.3. Information system costs	0		
4.4. Others	0		
TOTAL	75,000		15,667

Total Direct and Indirect Operating Cost Structure

Location:

Direct and Indirect Costs:

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
1. Branch Costs (incl.VAT)	**72,500**	**77,700**	**80,900**	**83,700**	**87,400**
1.1. Personnel expenditures	34,000	38,000	40,000	42,000	45,000
1.2. Staff related costs	1,000	1,200	1,400	1,400	1,400
direct	1,000	1,200	1,400	1,400	1,400
indirect	0	0	0	0	0
1.3. Premises expenses	24,500	24,500	24,500	24,500	24,500
direct	22,000	22,000	22,000	22,000	22,000
indirect	2,500	2,500	2,500	2,500	2,500
1.4. Cost of other equipment	7,500	8,000	8,500	9,000	9,500
direct	7,500	8,000	8,500	9,000	9,500
indirect	0	0	0	0	0
1.5. IT & Info Costs	0	0	0	0	0
direct	0	0	0	0	0
indirect	0	0	0	0	0
1.6. Business admin. & development	4,500	5,000	5,500	5,800	6,000
direct	4,500	5,000	5,500	5,800	6,000
indirect	0	0	0	0	0
1.7. Marketing	0	0	0	0	0
direct	0	0	0	0	0
indirect	0	0	0	0	0
1.8. Legal / advisory Expenses	1,000	1,000	1,000	1,000	1,000
direct	1,000	1,000	1,000	1,000	1,000
indirect	0	0	0	0	0
2. Depreciation	**15,667**	**15,667**	**15,667**	**14,000**	**14,000**
2.1. Premises expenses	7,600	7,600	7,600	7,600	7,600
2.2. Cost of other equipment	6,400	6,400	6,400	6,400	6,400
2.3. IT & Info Costs	1,667	1,667	1,667		
TOTAL OPERATING COSTS	**88,167**	**93,367**	**96,567**	**97,700**	**101,400**

Net Present Value Calculation

Location: Gjilan sub branch

	C_0	Dec. YEAR 1	Dec. YEAR 2	Dec. YEAR 3	Dec. YEAR 4	Dec. YEAR 5
Corporate Tax		20%	20%	20%	20%	20%
Investment	75,000	0	0	0	0	0
Contribution IV		53,898	82,817	98,471	124,308	144,512
(+) Tax saving/ (-) tax paid			-10,780	-16,563	-19,694	-24,862
(+) Equity costs						
(+) Depreciation		15,667	15,667	15,667	14,000	14,000
(+) Salvage value						
Net Cash-Flow	-75,000	69,564	87,704	97,574	118,614	133,651
Discount rate		3.18%	3.36%	3.39%	3.39%	3.39%
Present Value	-75,000	67,420	82,238	88,493	104,047	113,394
Cummulative Discounted Cash-Flow	-75,000	-7,580	74,659	163,151	267,198	380,592

Note (wzhreu): please use the discount rate: best alternative investment rate after tax
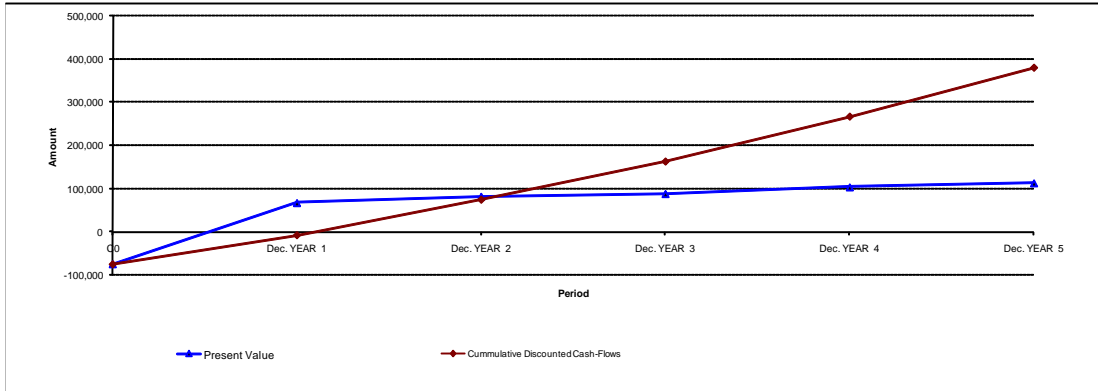
NPV	**380,592**
Payback Period in Years	**1.09**
"break even = +CMIV"	**0.00**
IRR	**107.07%**

ACCEPT PROJECT!
---> NPV > 0 !

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APPENDIX II

EUROPE	Internet and Facebook Usage in Europe			
	Population (2012 Est.)	Internet Users, 30-June-12	Penetration (% Population)	Users % in Europe	Facebook 30-Sept-12
Albania	3,002,859	1,471,400	49.0 %	0.3 %	1,084,880
Andorra	85,082	68,916	81.0 %	0.0 %	32,080
Austria	8,219,743	6,559,355	79.8 %	1.3 %	2,846,460
Belarus	9,643,566	4,436,800	46.0 %	0.9 %	432,680
Belgium	10,438,353	8,489,901	81.3 %	1.6 %	4,819,040
Bosnia-Herzegovina	3,879,296	2,327,578	60.0 %	0.4 %	1,310,900
Bulgaria	7,037,935	3,589,347	51.0 %	0.7 %	2,438,400
Croatia	4,480,043	3,167,838	70.7 %	0.6 %	1,573,340
Cyprus	1,138,071	656,439	57.7%	0.1 %	557,120
Czech Republic	10,177,300	7,426,376	73.0 %	1.4 %	3,747,020
Denmark	5,543,453	4,989,108	90.0 %	1.0 %	2,966,240
Estonia	1,274,709	993,785	78.0 %	0.2 %	491,620
Faroe Islands	49,483	39,948	80.7 %	0.0 %	31,080
Finland	5,262,930	4,703,480	89.4 %	0.9 %	2,218,960
France	65,630,692	52,228,905	79.6 %	10.1 %	25,173,780
Germany	81,305,856	67,483,860	83.0 %	13.0 %	24,596,460
Gibraltar	29,034	20,660	71.2 %	0.0 %	20,660
Greece	10,767,827	5,706,948	53.0 %	1.1 %	3,850,640
Guernsey & Alderney	65,345	48,300	73.9 %	0.0 %	10,920
Hungary	9,958,453	6,516,627	65.4 %	1.3 %	4,217,000
Iceland	313,183	304,129	97.1 %	0.1 %	219,400
Ireland	4,722,028	3,627,462	76.8 %	0.7 %	2,220,620
Italy	61,261,254	35,800,000	58.4 %	6.9 %	22,424,380
Jersey	94,949	45,800	48.2 %	0.0 %	41,100
Kosovo	1,836,529	377,000	20.5 %	0.1 %	n/a
Latvia	2,191,580	1,570,925	71.7 %	0.3 %	386,540
Liechtenstein	36,713	31,206	85.0 %	0.0 %	12,200
Lithuania	3,525,761	2,293,508	65.1 %	0.4 %	1,080,640
Luxembourg	509,074	462,697	90.9 %	0.1 %	213,220
Macedonia	2,082,370	1,180,704	56.7 %	0.2 %	941,240
Malta	409,836	282,648	69.0 %	0.1 %	213,040
Man, Isle of	85,421	39,460	46.2 %	0.0 %	39,460
Moldova	3,656,843	1,639,463	44.8 %	0.3 %	260,060
Monaco	30,510	30,700	100.6 %	0.0 %	30,700
Montenegro	657,394	328,375	50.0 %	0.1 %	308,480
Netherlands	16,730,632	15,549,787	92.9 %	3.0 %	7,234,420
Norway	4,707,270	4,560,572	96.9 %	0.9 %	2,734,260
Poland	38,415,284	24,940,902	64.9 %	4.8 %	9,214,680
Portugal	10,781,459	5,950,449	55.2 %	1.1 %	4,581,040
Romania	21,848,504	9,642,383	44.1 %	1.9 %	5,077,660
Russia	142,517,670	67,982,547	47.7 %	13.1 %	6,694,360
San Marino	32,140	17,000	52.9 %	0.0 %	8,540
Serbia	7,276,604	4,107,000	56.4 %	0.8 %	3,513,820
Slovakia	5,4483,088	4,337,868	79.1 %	0.8 %	1,987,440
Slovenia	1,996,617	1,440,066	72.1 %	0.3 %	714,520
Spain	47,042,984	31,606,233	67.2 %	6.1 %	17,010,480
Svalbard & Jan Mayen	2,191	n/a	n/a	n/a	n/a
Sweden	9,103,788	8,441,718	92.7 %	1.6 %	4,869,580
Switzerland	7,925,517	6,509,247	82.1 %	1.3 %	2,983,920
Turkey	79,749,461	36,455,000	45.7 %	7.0 %	31,483,300
Ukraine	44,854,065	15,300,000	34.1 %	3.0 %	2,122,680
United Kingdom	63,047,162	52,731,209	83.6 %	10.2 %	32,189,360
Vatican City State	535	480	89.7 %	0.0 %	20
TOTAL EUROPE	820,918,446	518,512,109	63.2 %	100.0 %	243,230,440

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