



INNOVATIVE BUSINESS BANK PRODUCTS

Z. Yordanova*

Industrial Business, University of National and World Economy, Sofia, Bulgaria

ABSTRACT

The business needs innovation in bank products and the banks should not be so traditional and conservative anymore. In order to hold and attract customers banks should innovate their products, processes and organization. The purpose of this paper is to present and summarize the innovative business bank products on the Bulgarian market, which were launched during the last several years. The innovative bank products will be grouped in new categories to support their future development and diversification. The paper is also going to present brand new bank products, which have not been provided in the local bank-business sector yet. For those two purposes an extensive research on the leading banks' product range as well as interviews with top bank managers has been conducted. The results show strong focus on innovations in bank products, organization and processes, which is provoked mainly by the increasing customers' requirements. The research concludes that the business requires innovative bank products to respond to its expanding needs.

Key words: innovation, bank products, bank innovation, product innovation

INTRODUCTION

Commercial Banks traditionally are conservative institutions and adhere to the established practices more than the players in most of the other sectors. Despite the slow pace of innovating, banks are directly involved in many of the business innovations through their transactional, credit and investment functions to the business. This makes banks well informed about the developments and innovations in the market. The specific bank activity and the high intensity of communication and interaction with own customers require banks to modulate their products to the market and the customers' needs and requirements as well as to adapt them to the constantly changing environment and technology. In order to be attractive to their customers, banks should implement innovation at product, process, market and organizational-managerial level. Innovation is not only an end

in itself in the direction of product diversity and diversification. To be defined as innovations the changes should satisfy some conditions: they must represent a novelty, offer a higher utility than the existing analogues, lead to positive changes and bring specific tangible or intangible results.

The aim of the paper is to introduce a new business bank innovative products classification; to summarize the innovative business bank products on the Bulgarian market and to present some brand new bank products, which have not been provided in the local bank-business sector yet.

EXPOSE

a) General and business bank innovation principles

Innovations in banks could be divided into four types according to the object of innovation. These types refer to the products, the processes, the markets and the organization. Bank products directly influence business processes because they affect activities such as business investments, enhancing market shares,

*Correspondence to: Z. Yordanova, *Industrial Business, , Sofia, Bulgaria, 1700, Studentski grad, Hristo Botev, UNSS, zornitsayordanova@abv.bg 0885 573548*

developing new products, transactional daily payments, taxes paid, etc. In short, banks touch a really big part of the business activity. Furthermore banks influence the business in its daily, strategic and organizational work. That is why bank products, which are the instruments for interaction, should be adapted to the business needs. Here comes the significance and the high value of the innovation processes in banks. They do not have a product diversification purpose only, but also a social and an economic one – to support the business in its development. Thus banks seem to be obligated to generate innovations and to improve their instruments for interaction with the business sector although profit is the main motivation for doing that.

The concrete reasons for which banks develop product innovations are:

- Technology
- The need of product diversification;
- Search for opportunities to enter new markets and increase market shares;
- Following the increasing customer requirements;
- Competitive advantage over other members of the industry;

Innovations in banking and innovations in other sectors can be grouped based on a large number of criteria, characteristics and common features. The purpose of the innovation classification in groups is to help the process of research, innovation development and customer targeting. Classification of innovation facilitates the resolution of several tasks: identifying the types of innovation, which affect positively the production, the management and the marketing activities of the company; identifying the role of different types of innovation to maintain the company's competitive advantages; comparing the firm's practice to that of competitors in terms of the type and structure of innovations, their importance for the implementation of the overall strategy; improving the innovation management in the company.

This paper will propose a new product grouping and classification according to the specific business banking products and innovations in the bank-to-business relations. Bank products are pretty specific in their product nature and existence. Due to that specification bank

products are difficult to be classified based on common categorization. They usually have a mixed character when it comes to the subject of innovation. Most of the business bank innovative products have common borders between a product, a process and a market innovation. In general, business banking products (SME and corporate) are divided into credit, deposit, transactional and investment services and products.

Despite presenting the innovative business products in the categories of their banking product range, they still seem random. To be classified in the most appropriate procedure for analysis (further development, performance monitoring and market orientation) they need to be designated into groups and subgroups via a cross method. This method should meet the specifications of the business bank products and also fit to the details of the used innovative methods for product bank diversification. For this reason the author believes that the formation of a new category scale to serve the particular needs of innovative business bank products is imperative. Otherwise their disorganization could hinder their future enrichment, development and diversification. In the presented brand new categorization the investment products are excluded. Main reasons for doing that are: they are not a bank activity only; furthermore they are products rather of the investment companies and mediators than of the banks; the Bulgarian market has no appreciable volume; they are not widespread within the business customers;

Until recently, banks have modulated products based on their own core functions and activities. Nowadays, the banks that have decided to change the course of their customer orientation prepare products in accordance to their customers, not to their own organizational structure. This innovative approach involves prioritization of marketing, market segmentation analysis to clearly define the customer needs. Nowadays, the products are not defined in separate categories; rather an overflow occurs. The main reason is that banks are increasingly making their products in the face of their clients, rather than their own activities and policies. For example, they offer full-service products depending on the type of the client, such as the

farmers, the food processing enterprises, the export-oriented enterprises, etc. This method of approach is also required by the banks' ambition to meet all business customers' needs and thus to overcome the competition.

In the banking practice, as well as in other sectors, there is a need for a constant product innovation process. This may be due to some

changes and new requirements of the market, changes in customer preferences and demand, new external and internal factors, marketing approach and others. Whatever the reasons are the permanent and continued process of product innovations has to cover all areas of the bank activity, especially its products.

Table 1. Common bank products under the general bank classification

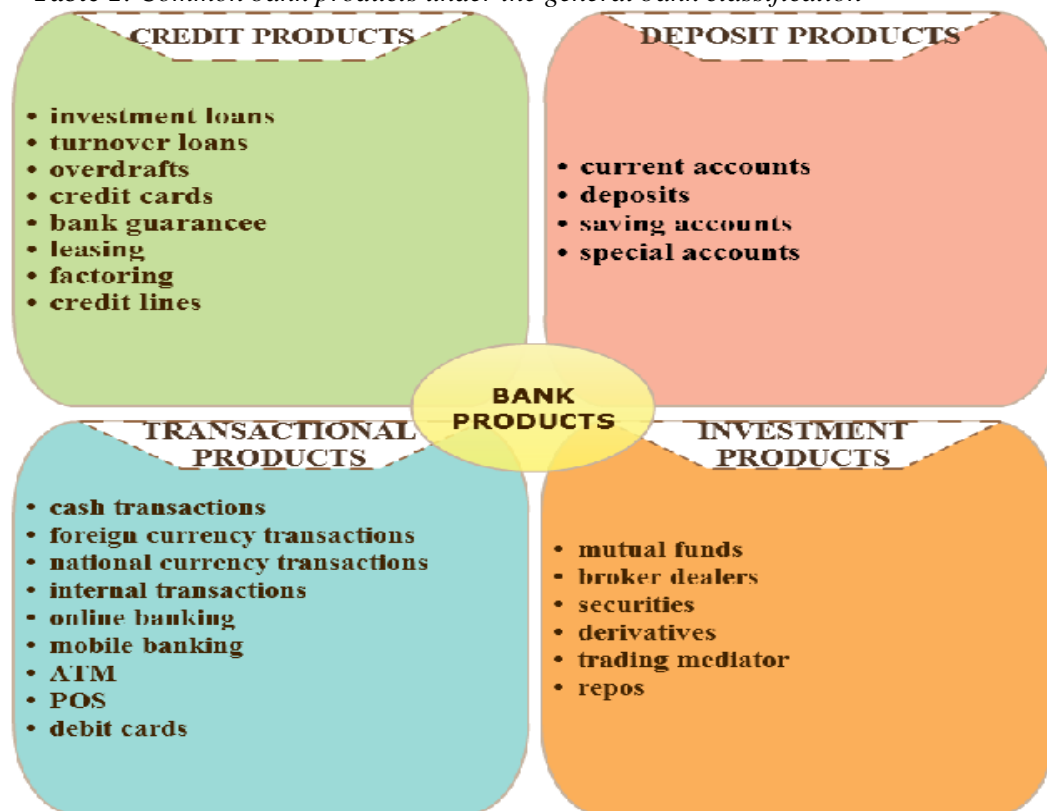


Table 2. Business bank innovative products classified under the new cross method

New business bank innovations categorization	Credit/loan products	Deposit products	Transactional products
Internet innovation	online loan application internet banking online preapproval for loans	online deposit application 24/7 deposit transformation	internet banking virtual POS debit/credit cards for internet usage
Mobile innovation	sms notification for loan installments	24/7 deposit transformation	mobile banking sms notification for transaction
innovative products for EU beneficiaries	investment loans with EU guarantee loans with EU subsidy overdrafts for agriculturiers Loans for starts up		special accounts for EU subsidies
Packages/Bundles	Brand Credit cards with preferences Combination of credit products: I/W	Combination of deposit products: 1-2-6-12 m Deposits with compound interest rate	Packages-all in one Packages according to the usage
innovative products according to the customer	Loans for : agriculturiers, dentists, notary, doctors students, EU beneficiaries	special saving accounts	
Product-organizational innovations			
Product-process innovations	Loans for starts up		Extended working hours desk

Is financial innovation influenced by financial liberalization? This kind of study was conducted among Tunisian banks during the period 1987 - 2008 and the results show that the legal framework influences to a large extent the banks' innovative behaviour. In Bulgaria innovative bank products are mostly connected to the customer satisfaction, not to avoiding regulations. There used to be a bank innovation category, which directly resists the effects of regulations, but it is more likely to be a process innovation than a product one. This process has been related to BNB regulations on bank liquidity, delinquencies, etc. In the years after 2008 there was a process of bank creativity regarding the categorization of clients according to their regularity in loan re-payment. This was influenced by the requirements of the BNB to build provisions for customers in delinquency, which reduced the banks' financial results. To avoid this, banks invented all kinds of ways to avoid provisioning by using different kinds of customer categorization, restructuring, postponing the debt, etc. Nevertheless, such innovations are rather an organizational than a product innovation and do not meet all requirements in order to be called an innovation. This is a kind of innovation, but it is more likely to be classified as an adaptation.

Almost all bank product innovations are related to the technical progress. Technological innovations have dramatically altered the banking industry in recent decades.

The use of IT products has changed the face of banking. The modern bank is shifting from mass banking to class banking with introduction of value added and customized products. Technology now allows banks to create what looks like a branch in a business building's lobby without having to hire manpower for manual operations. These branches are working 24/7, which is possible due to Tele banking, ATMs, Internet Banking, Mobile Banking and E - banking. This technology driven delivery channel is used to reach maximum customers at lower cost and in the most efficient manner. The merit of these banking innovations is that they put both bankers and customers in a win-win situation.

b) Examples of innovative banking products for business organizations in Bulgaria

Bulgarian banks compete for customers on several fronts. The main instrument is exactly the frequent introduction of new products, since the other strong factor, which is the price, is not easy to manage due to lack of flexibility and independency. Due to the banks' inability to attract customers with continuous reduction in price and even in circumstances of rising price, banks are forced to use other means to gain and retain customers. Innovative products are the most successful tool, along with the good and qualitative service.

The bank sector has a big market, compared to other industries in Bulgaria, because it covers all economic subjects in the economy. But it is not so big in comparison with bank sectors in bigger countries. That is why successful products have been quickly copied by competitors. The market is not big enough for enhanced and expensive product development. Usually the competition leads a battle both on a service and marketing level. However, there are banks, which launched innovative products. Examples within the Bulgarian best practices in the last several years include:

- Special short-term loans for farmers corresponding to the respective EU/BG subsidy. This kind of product is well known and it is offered by almost all banks. It presents an overdraft or a term loan for a year period, whereas the refunding is executed when the farmer receives his subsidy for the past year. The product appeared on the Bulgarian market when the annual payments from the government and the EU for each -cultivated hectare started to support the farmers. The reason for the innovative opportunity and the product appearance is that the subsidy comes to the farmers at year-end, not in the beginning of the farm season. The first bank to launch the product was Procredibank in 2006.
- A really unique business bank product is Postbank's credit line for investments launched in 2006. The product is based on the companies' need to perform permanent investments. A credit line allows them to carry out investments more easily without having to apply for a new credit

for each new investment. The product had very successful sales, but its offering was stopped when the crisis started, because of its higher risk characteristics.

- Online banking is a mass service now, but it is still new. The first bank in Bulgaria to give the opportunity for home/office banking was Bulbank in 1999.
- Mobile banking is internet banking via mobile smart phones. Special applications started to be circulated to customers in 2011 by Bulbank. They were immediately followed by First Investment Bank in 2012 and later by Raiffeisenbank in 2013. The special mobile applications allow some additional services as FX convertors, branch and ATM location searching, etc.
- In the years of intense bank lending (2005-2008) variety of business products for dentists, solicitors, doctors, etc. became popular. The leaders in launching innovative business bank products within these years were Procredit and Postbank.
- Special deposits with compound interest rate started in the first years of the century. They offer higher profitability for each subsequent year of the deposits.
- ATM machines with deposit functions have been recently introduced in the Bulgarian market. They allow a full replacement of the branch service, because they authorize not only withdrawing money, but also money deposits. Banks-innovators in the Bulgarian market were DSK and Raiffeisen.
- Transactional bundles are a frequent object of innovations, because of the potential which they possess for combining different standard banking services aiming at building a new product. Their fast development started after the onset of the crisis, when lending had shrunk and the banks set a focus and priority on deposits and transactions. They were launched firstly by Raiffeisenbank in 2005.
- Branded credit cards offer their owners a different kind of advantages when the credit card is used for certain purchases. Such products are primarily aimed at consumers rather than business users, but there are exceptions. The

credit cards of DSK branded by Mtel, Raiffeisen and Avon, UBB and Metro are high level of innovations in card bank business.

- BRS/Postbank launched a combination between a credit card and a leasing in 2003. They offer the customers installment purchases as well as other standard credit card functions.
- In 2008 an EU program to support the agricultural technology started. The subsidy covers 50% of the respective investment but it is paid only after it has been made. Because of the easiness of the investment, excluding any kind of construction activity, Raiffeisenbank offered customers loans for the purchases' payments. Soon after that it refunds the half of the loans with very good commissions and interest.
- A very successful product has been the overdraft, which is formed and calculated on the base of the customer turnover via bank account. The overdraft is preapproved, which means that the customer does not need to apply for it, but the bank connects the company with an offer. The limit depends on the turnover and the customers' loyalty. Such products have been offered by Eurobank EFG, Raiffeisenbank, UBB, Unicredit, etc.
- Working hour extended desk – some banks have started to offer their clients offices with extra working hours. This kind of innovative practice is not a product, but an organizational one from the customer point of view. For the bank this practice targets new customers and services other kind of clients. Therefore, it could be classified as a kind of a mixed bank innovation. The leaders in this practice are First Investment Bank, Unicreditbank, Cibank. First branches with extended working time opened in 2008.
- First debit and credit cards with “chip” were launched in 2007 by Alianz Bulgaria. They held out much more security than the others. Nowadays almost all cards are based on that technology.
- After a detailed monitoring and analysis the innovations having been introduced in the Bulgarian banking sector in recent years are summarized and described in a timeline.

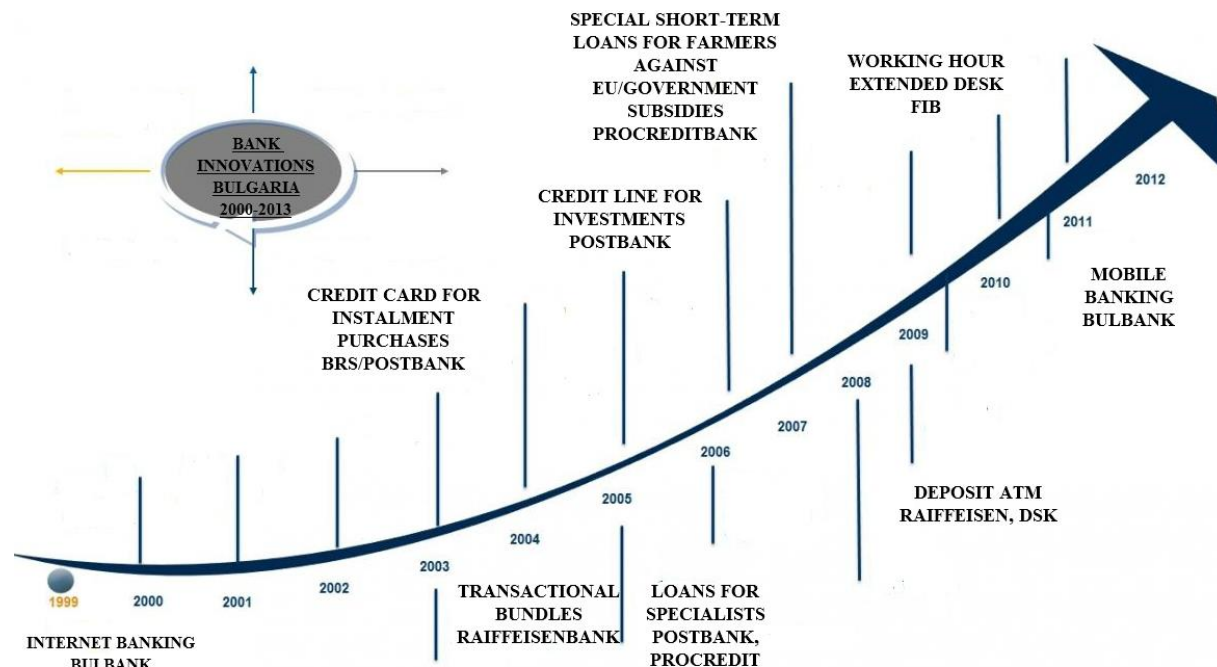


Figure 1. Business bank innovative products classified under the new cross method

The graph shows the specific nature of innovative bank products and their main purpose – to push up the sales. The credit product innovations were concentrated in the years before 2007-2008, after that the economic crisis began. In the recent years the innovations are pronominally technological.

c) Interviews with bank professionals about business bank innovations

The main purpose of the report is to portray the overall picture of the business bank innovations and to determine some development trends. To achieve these goals a series of interviews with leading banking professionals have been carried out. The banking professionals' expert assessments on the development of innovation in the banking sector and the trend direction will be presented in this section of the report.

Yordan Radev, Central Bank Oversight Policy Senior Expert points that business organizations need banking services, which enhance the overall business turnover and business R&D investments, that may bring about further development, efficiency and maximization in corporate financial and business performance.

Banking innovations should also focus more on small and medium sized enterprises, start-ups, higher-technology producers, which are a driving engine for economic prosperity and may generate higher GDP and employment, thus increasing financial returns and wealth for all economic participants.

Filip Popov, Senior Sales Manager SME Department at Raiffeisenbank Bulgaria stresses that the electronic channels are not developed enough yet. The main reason is that the "grey economy" still has a very high percentage in the turnovers of the companies and business continues to work with cash. He also highlighted that business credit cards need more innovations. By developing these products banks will intensify the competition between each other and that will have a positive effect on the business. On the other hand by strengthening the use of credit cards the "grey economy" will decrease.

In the professional opinion of Daniel Aleksiev, Supervisor Budgeting and Analysis Section, Retail Banking Division at Raiffeisenbank (Bulgaria) EAD, the business organizations do not need new innovative bank products, but an innovative improvement. The banks should

invest more funds to innovate the communications with clients. The more timesaving and paperless the b2b (business-to-bank or bank-to-business) partnership is, the more attractive and useful for both sides it is. A good example is the EU regulation for international payments over EUR 30 000 within the union. The ordering customer must present to the bank a proof of expenses document, but none of the banks in Bulgaria offers an e-service for submitting that document, though the payment is made via Internet. So the bank product is available, but the way of offering it or the process is at least partially confusing, cost and time consuming or is just too difficult for customers. Good example for innovative approach to the customers could be a calculator that shows business organizations the benefits of combining a few bank products in one bundle and pre-paying taxes for several months. In order to start offering innovative new bank products financial institutions have to analyze the demand of business organizations. Offering a non-innovative and useful bank product is better than an avant-garde and low popularity product which is hard to be presented to the customer.

Lilly Lozanova, Strategic Project Manager at Unicredit Austria, considers innovations as the motor power of the banking development. She defines them as the connection between banks and customers. Furthermore, that connection should stay alive and ceaseless in order to be the main marketing tool for the bank and could be a reason for bank recognition.

Dobri Angelov, Chief Expert Business Processes at CIBANK PLC shares that to be able to clearly indicate the concrete bank innovations which will be warmly accepted by the business we must first clarify the change in customer needs and in customers' banking habits. And the first and most important change is the constantly growing global trend towards more online and more mobile communication. According to an EFMA survey contacts with branches are decreasing at a rate of about 3 % per year in most developed markets. To be able to attract, and even more important – to retain their existing SME customers, banks have to work in a direction to simplify their basic business products. The bank innovation lies in the simplicity, because a simplified and standardized

product reduces costs. But simplicity will not be enough if banks try to sell the same standard products to all their clients. In order to be successful and to increase the acquisition rate, banks have to sell always the right standard product to the right sub-segment of clients, whose businesses are in the right stage of the life cycle. Last but not least, nowadays more and more customers prefer to spend more time on social and/or business networks than on bank websites. Now is the right time for the banks to put their efforts in developing their direct channels, especially putting efforts in the development of their online/mobile platforms. This will allow them to be constantly close to their customers and be able to react fast on their current and future needs.

Tolga Tanrikorur, Strategic Project Manager /CEE CIO, Unicredit shares the view that banks may have positive impact on their clients' profitability, on their risk management systems or even create new markets for them. Innovation that does not create any comparative advantage cannot be useful for any business organisations, but simply represents new cost for a fancy idea. A business organisation's need can simply decrease its financing and intermediation costs and this need may also find some provision on the bank's side as well.

d)International examples for business bank innovations

Bank innovations are well represented in the major markets where competition is greater. Many foreign practices and products are non-applicable to smaller markets such as the Bulgarian. However, some of the innovative bank products are very business oriented and besides curiosity and admiration, also attract the business interest of Bulgarian companies. In this section of the report several innovative products, which are applicable in the Bulgarian market and attractive to the Bulgarian business organizations are going to be presented:

➤ Many people have argued that gamification has a real role in the future of banking. The Spanish bank BBVA used a gamification platform to incentives clients to use the bank's online banking service. At first glance, the BBVA Game looks like a typical points, badges, and leaderboard system. But actually BBVA created a virtual economy

around the point system. Customers are awarded points for activities such as using specific online services or contracting new services online. Badges are awarded for completing challenges and leaderboards create competition. Players can win music or movie downloads and even tickets for soccer games in the Spanish La Liga. In the six months after BBVA launched its game more than 100,000 customers signed up. Is the BBVA Game revolutionary? Maybe not. What is noteworthy is that the 31st largest bank in the world would embrace gamification to such a degree — and find success while doing so. BBVA received a 2013 Bank Innovation Award for that bold step forward with the BBVA Game.

➤ Fidor Bank AG, based in Munich, Germany, was awarded with a 2013 Bank Innovation Award specifically for its “Like-Zins” initiative, which is the first user-driven interest rate in a real banking environment. Utilizing Facebook’s like-button users can directly influence the credit interest paid on their bank deposit in their FidorPay checking accounts. “Liking” Fidor directly rewards customers for their activities around Fidor Bank in the social network ecosystem. Fidor was recognized for its innovative “Like-Zins” initiative that combines novel approaches to pricing, social media, and marketing with a 2013 Bank Innovation Award.

➤ DenizBank – Turkey introduced the ‘Globally First Ever’ Banking Platform on Facebook. With full online banking functionality, the platform enables Facebook users to check their bank account, see a total picture of assets and liabilities, send money to anyone, anytime, purchase/enroll in consumer loans and credit cards, and invite Facebook friends to use the platform, among other capabilities.

➤ Financial innovation is also spreading to a banking device that all consumers, both young and old, are familiar with: the ATM. ATM has a feature more likely to be a bank-to-customer product, not so bank-to-business. Here come the innovations and the global bank tendency to keep the customer out of the branch office. This trend is provoked by the huge expenses on doing the bank business face to face (a high rent for a top location, personnel, person-to-person contact, limited working hours, crowding of customers at certain times), a big waste of time for the companies’ customers to visit the bank.

Besides online banking, ATM machines also work towards overcoming the bilateral needs of banks and business customers to operate with each other remotely.

➤ More ATM manufacturers are expanding the capabilities of ATMs. In January 2013 at the Consumer Electronics Show, Diebold demonstrated two features that bank customers might see in the next generation of ATMs. Diebold is a manufacturer of ATMs for many U.S. banks and credit unions. The first feature allows bank customers to withdraw cash without an ATM or debit card. Instead, they use their smartphones to scan a QR code displayed on the ATM’s screen. Customers select the withdrawal amount on their phones and then they receive a single-use authentication code, which is entered into the ATM to withdraw the cash. Mobile-based cardless ATM withdrawals are already a big hit overseas in places like Africa but they haven’t yet gone mainstream in the United States.

➤ The other feature shown off by Diebold was ATM person-to-person (P2P), company-to-company (C2C) and person-to-company/company-to-person (P2C/C2P) payments. Through an ATM, bank customers can input a payment amount and the recipient’s contact information. The recipient will receive a code that must provide at an ATM or branch in order to collect the payment. It’s one way to offer P2P (C2C) payments if the bank doesn’t provide such a feature through online or mobile banking channels.

➤ In 2012, Dollar Bank became the first bank to install ATMs (from NCR) that offer video-conferencing with off-site bank tellers. The ATMs allow banks and credit unions to offer live-teller service for extended hours. Diebold also introduced similar technology in 2012.

➤ Attractive and brand new innovation is also the Virtual Personal Assistant for banking. For the innovative banks such a product is a cornerstone of its customer-centric banking vision, which includes bringing the simplicity and reassurance of in-branch banking to the online world. The goal of the project is to achieve that simplicity and reassurance by integrating human-like interaction into the user experience.

CONCLUSION

In conclusion the report will summarize and generalize the main points and views on the business bank innovations.

➤ The banks are obligated to innovate their products in order to improve their service and offers towards customers.

➤ The right and precise categorization of the business bank products will help the innovation process. It will also promote the offer of the appropriate product for the particular clients. By doing this, the both sides of the interaction will operate more successfully.

➤ New innovation bank product categorization policy is indispensable to be launched.

➤ The business bank innovations are part of the renew process of the products, which process follow the changing customer needs. Each shift in the customer necessities requires a new bank approach to satisfy them.

➤ Business area is going to transform itself pretty fast and the standard business bank products often hinder rather than help businesses. Therefore the innovations possess the specific feature to fit the business, because they are some kind of improvement.

➤ The large variety of products is not the right way to meet the customer needs. The customer wants easy-going, understandable and simple products. A lot of opinions on the theme coalesce around the idea that innovations in the business bank products should made them easier and comprehensible rather than impressive. However, some innovative banking products attract customers just because of the novelty.

➤ The innovations in the business bank products should go to a self-service model to meet some issues from the last years: hectic processes; workforce reduction; cost cutting; location and time factors; raising the technology knowledge, etc.

➤ The technology boom enters increasingly adequate in the bank-to-business relationship and cuts the processes. Furthermore, the technology in the face of Internet banking, mobile banking and ATM link banks and

customers much closer. Nowadays the customers are in a touch with their money 24/7, which increase the customer confidence in banks.

After all, the final conclusion has to underline the importance of the bank for the companies and to acknowledge the bank as one of the most substantial partners for the business. As such, the bank has to mostly offer improvement of the business environment through its services. And this is where the innovations find their practice – to connect the customers and the bank in a mutually beneficial relationship.

REFERENCES

1. Georgiev, I., The innovations – European, national and regional policies, ARC Fund, p. 374
2. Georgiev, I., The innovations – European, national and regional policies, ARC Fund, p. 376
3. Mabrouk A M. Chokri Banks and Bank Systems, Volume 5, Issue 3, 2010, Tunisia
4. Borunda, T., History of Technological Innovations at PNC Bank, Susan Santos CMGT 557 – Emerging, Technologies & Issues, April 16, 2012
5. TECHNOLOGICAL INNOVATION IN INDIAN BANKING SECTOR – USE OF IT PRODUCTS, available at: <http://www.myresearchpie.com/> ISSN: 2231-0703
6. Hornbliss, 4 Companies win 2013 Bank innovation awards, available at :<http://bankinnovation.net/2013/03/4-companies-win-2013-bank-innovation-awards/>
7. <http://bankinnovation.net/2013/03/4-companies-win-2013-bank-innovation-awards>
8. <http://www.bai.org/globalinnovations/index/about-the-program>
9. <http://www.mybanktracker.com/news/2013/01/09/future-upgrades-find-atm/>
10. http://www.sri.com/blog/meet-lola-virtual-personal-assistant-banking?goback=.gmp_2766091.gde_2766091_member_184423394