Chapter 12
Implementing an Electronic Infrastructure:
Developments in Banking in Germany and Finland

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ABSTRACT

The Internet has already now revolutionised many industries. The biggest changes are yet maybe to come in many industries, but the banking field can be seen as a pioneer in the application of modern information technology in general and of the Internet in particular. For example, in banking hardly anyone speaks about e-Banking: e-activity is banking as normal, no especial "e" is needed. This chapter discusses the banking industry as a user of the Internet and other modern information and communication technology (ICT). Germany and Finland are used as case examples and make comparisons between them. The banking industry has utilized several technologies of computer networking over several decades, and also got a "flying start" to the Internet technologies, that nowadays are a backbone of the banking industry. As stated, this chapter compares some of the related developments in Germany and in Finland.

INTRODUCTION

On January 1, 1999, the European Economic and Monetary Union and the Euro were introduced. In year 2002, we got the Euro as a bar money into circulation. This laid a solid ground for harmonization of many payment-related issues in the European Union. Still, however, national differences in the European Union are big as it comes to payment systems and customer's habits.

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For historical reasons and on account of differences in the legal, regulatory and institutional framework, the variety and structure or payment and securities settlement systems differs from country to country. (March 25-26 2002 Workshop Participants and the 3 ECSAs, 2002). In this article we study the extent of these differences between Germany and Finland.

"One single payment area" is the vision forwarded clearly by the European banking industry (March 25-26 2002 Workshop Participants and the 3 ECSAs, 2002). The report "Euroland – our single payment area" describes the current state of art of banking payment systems as follows (March 25-26 2002 Workshop Participants and the 3 ECSAs, 2002):

- Five main instruments fulfilling customer needs today
- Efficient national infrastructures, but very different from each other
- High straight-through-processing (STP)-rates for each country, which are again very different from each other
- Standards and infrastructures for cards in place for seamless domestic and cross-border processing, but significant price differences between domestic and cross-border transactions.

The same report summarizes the key trends in payment systems as follows (March 25-26 2002 Workshop Participants and the 3 ECSAs, 2002):

- Customers need to have convenient access to payment services, with transparent pricing and minimum service levels (quality, security and execution time) equal for domestic and cross-border transactions
- Banks should be able to decrease the overall cost of payments and have room to offer value-added services at a premium
- The optimal components of payment schemes should be developed in a concerted way within the Eurozone.

Payment systems are a major business and affect the daily life of both private citizens and companies. For Europe and for year 2001 it was estimated that there are 207 million electronic payment transactions (also not including cash payments) daily, also summing up to 138 transactions per each citizen yearly. (Hegarty, Verheul, Steupaert, & Skouma, 2003) The importance of payment and securities settlement systems in modern economies has been growing considerably over the past decades. Central banks not only face the task of steering the monetary conditions in the economy, but also have a direct interest in the prudent design and operation of the payment and settlement systems processing their currency. Payment systems play a pivotal role in a modern economy. (European Central Bank, 2002a)

The Internet provides a good platform for electronic banking. Not only does it save costs, but studies also document that Internet customers usually are better customers to banks as traditional customers not using the Internet. (Hitt & Frei, 2002) National differences in the adoption of Internet in general and in its use in banking in particular are big. Many banking institutions have not yet found the potential of Internet. (Colgate, 2000) Ignoring the power of Internet can lead to the erosion of the whole industry feasibility. (Holland, Lockett, & Blackman, 1997) In this article we tackle this phenomenon taking Germany and Finland as case examples. Our focus is on private banking.

Adaptation of modern ICT technology including Internet banking is dependent on many variables that account for national differences and differences between different customer groups. Expectations of accuracy, security, network speed, user-friendliness, user involvement and convenience were the most important quality attributes underlying perceived usefulness (Liao &