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# **The introduction of e-Commerce systems in the banking industry – an example of the BBBank and some empirical results**

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## **Introduction**

Throughout the last years competition in the banking industry has grown dramatically.

Almost daily, headlines in the business press portray the financial services industry under the threat of massive change. The financial services industry is changing fast and very noticeable. Old ways of doing business are disappearing rapidly.

A good example is the German ConSors bank. ConSors started as a branch of the Schmidtbank. Now (in 1999) after going public it is the fifth biggest bank in Germany considering their market capital.

But competition is also rising from non-banks. Companies like Volkswagen or BMW offer not only loans for car buyers they also offer Creditcards or short notice accounts to customers.

One of the driving forces behind the growing competition is the rapid development in the field of information&communication technology.

Starting almost 15 years ago with proprietary systems like the French minitel or the German btx the rapid growth of the use of the Internet has become a major driving force.

Customers have become familiar with the use of electronic banking services and systems during the last years.

The use of the Internet technology now provides consumers with the ability to bank, invest, purchase, distribute, communicate, explore from home, work, cafés, or virtually anywhere an Internet connection can be made.

## Impact on market strategies

The Internet will make banking a much more competitive environment in the next years to come.

Since the Internet is not constrained by geography, banks have to compete with national and multinational banks and companies for consumers located anywhere in the world.

In addition, a number of “virtual“ banks have now entered the market to compete with traditional banks for clients.<sup>1</sup>

As a result, the revolution brought on by Internet is modifying the nature of competition in terms of changing rules, creation of new opportunities, changed service and opening new markets especially in the retail banking segment.

For that reason the German based BBBank eG started to develop a market strategy to meet these challenges some years ago.

The BBBank eG is one of the biggest cooperative credit banks in Germany. It has more than 300.000 costumers in the whole Federal Republic of Germany with more than 120 branches in seven federal

states. The focus of the BBBank eG is the retail banking sector with the private customer solely. Here it offers full service like credits, mortgages, depositary receipts and assurance to their clients.

As a result of technological progress and the evolving definition of convenience it was one aim of the BBBank to enhance traditional branch services through a number of alternative delivery channels.

When talking about different delivery or distribution channels the term “multi-channel-banking“ is often used nowadays. Multi-channel-banking offers to the client the possibility to communicate or to make transactions through several different channels with the bank.

In the following almost all of this channels are mentioned.

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<sup>1</sup> We call a bank a virtual bank if customers can operate without physically reaching the bank premises. (M. Ospel CEO, UBS, - Future Banking: American Pace – European Style. Swiss American Chamber of Commerce 18.11.1999)

- Branch
- PC/Internet
- Call Center
- Cellular Phone-banking
- PDA-banking
- WebPhone-banking
- Internet TV
- Multimedia Kiosks

The physical architecture of most of this distribution channels converge to the TCP/IP protocol and therefore to the Internet.

It will be a enormous challenge to the banking industry in the next years to develop and to build up all of the above mentioned distribution channels. Today most banks offer the distribution channels PC/Internet and Call Center. In the next years to come the others channels will be introduced step-by-step.

For the BBBank it was always a goal to offer their customers not only electronic channels to communicate or to make transactions but also to offer attractiv “brick-and-mortar“ branches to their customers and to combine these distribution channels.

In addition to dropping costs and creating alternative distribution channels for retail banking products, these new technologies also offer the opportunity for selling non-

banking products to clients. Through these new media channels the customer may also gain access to non bank services like electronic commerce.

In 1994 the BBBank started to introduce the electronic distribution system “Multimedia Kiosk“ in the foyers of their branches.

With more than 2000 customers who used the six multimedia kiosks each month the system has been a success. One of the lessons learned from this system was that it is necessary not just to offer financial information or products but even more successful to offer non-financial products and information on such a system. For example the cinema programme has been the most widely used menue point.

Since this development was a proprietary system it was difficult to fill in new contents and to keep the system up-to-date. With this experience it was clear that it is useful to invest in multimedia kiosk systems in general but that it is also necessary to use the Internet as the technological platform of such a system. The BBBank decided in 1997 to join the Mikado-ARGE.

## The distribution channel

### Multimedia-Kiosks – first results

The Mikado ARGE was established in 1997 with the partners: Digital Equipment/Compaq, Tellux Dr. Schaefer, Colibri, SüdwestNet. The SGZ-Bank and the BBBank joined the group later the same year.

The target of the group was to establish a regional multimedia kiosk system with the contents e-commerce, public-information and banking products as a pilot system.

Figure 1 describes the system in more detail.

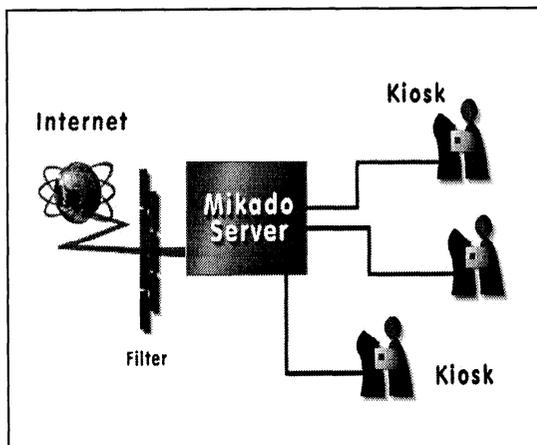


Fig. 1. The Mikado multimedia kiosk-system

Customers who will use the Mikado-Kiosks have access to the Internet. They can use contents which are filtered and passed through to the kiosks.

A lot of contents are presented to the public at such kiosks. Beside banking products and financial information

customers also have the possibility to buy books, individual audio CDs or to book tickets. They can also search for public information and may print it.

Figure 2 shows how often the different contents financial services, public services and commercial services are used. On the left axis the number of page hits are shown.

A consequence from these results is obvious. Even in such locations as “brick and mortar“ branches customers are not only interested in financial services and products but they are also interested in commercial products and public information.

The use of multimedia kiosks as point of information (POI) and as point of sales (POS) is definitely a possibility for banks to offer to their customers interesting and attractive services in their branches.

In 1999 the first Mikado-Kiosks were installed. Since that a lot of experience has been gained about running such a complex system. A lot of technological problems are still to be solved during the running of the pilot.

But the empirical results are evident. With 400-500 customers who use a kiosk per month it is obvious that the

introduction of the distribution channel “multimedia-kiosk“ is a success.

As another result of the Mikado project it

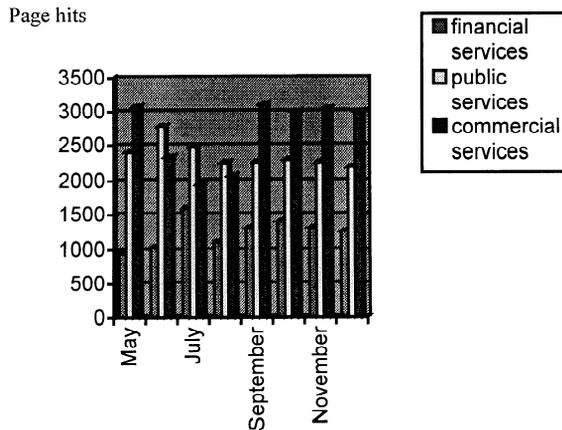


Fig. 2. Customers using multimedia kiosk systems

was evident that BBBank customers are interested in non financial e-commerce products and services. So it was a strategic decision to additionally offer e-commerce products via the distribution channel internet.

## E-Commerce through different distribution channels

Since it is possible to offer the customer banking and non-banking-products through different channels, it was a small step after the introduction of the multimedia kiosks with their non-banking

products to use the Internet also as a platform to offer non-banking services to customers.

As a first service the BBBank decided to cooperate with fluxx.com in september 1999. Fluxx.com is the first company offering the German Toto-Lotto-Service on the Internet.

The customer can use different payment systems, e.g. ssl-creditcard-payment, ecash or drafts for using this service. Since the BBBank doesn't offer ecash to their customer it is not our interest to use ecash as a payment-system for this service.

Most of our costumers use ssl secured creditcard-payment at the moment.

This first service was a great success. From the start it was possible to gain between 5-10 new customers a day among these are not only BBBank customers. Around 7% of these Toto-Lotto users are not BBBank-customers who could be attracted to visit the BBBank-homepage.

As a consequence of that successful non-financial service the BBBank decided to offer other services and to establish the homepage [www.bbbank.de](http://www.bbbank.de) as a platform for e-commerce services.

So in December the BBBank opened the BBBank-Book-Shop together with its partner Mende. Here it is not only

possible to buy books, as an additional service the BBBank offers to their customers book suggestions with interesting topics from the financial and non-financial world.

Here it is possible for the customer to use payables or ssl secured creditcard-payments. In general (with some exceptions) most of our customers are located in Germany and therefore use invoices.

Starting from a small base in December 1999 it was possible for us to rise the revenue in January 2000 by about 100%. It was always the aim of the BBBank not to build up an e-commerce system itself.

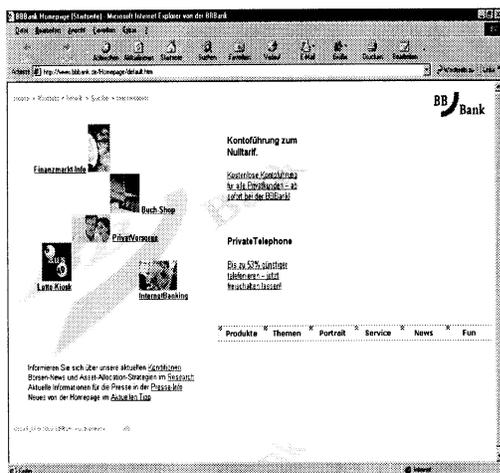


Fig. 3. The BBBank homepage with the today offered services

The aim was to establish a value added network and to offer to their customers additional service through the electronic

distribution channel together with partners.

After the first month of experience it is apparent that our customers accept the services we are offering to them. Starting with these non-financial services in 1999 it is obvious to us now that it is possible to move into new business areas and generate revenues, too.

In spring 2000 the BBBank is going to offer several new e-commerce services on the internet to our customers.

## Conclusions

The old physical model of banking, with branches, proprietary products, and back room, is continuously being reshaped by technological developments and changing customer preferences.

New competitors and new competition through e-commerce forces the banking industry to develop new strategies to answer these challenges.

Retail banks – as the BBBank – today still depend “heavily“ on their branch network and consider it as the core of their business. But the tendency for the branch network is to become one of several channels over which customers can do banking transactions.

Probably the branches will be a privileged channel, used only for a genuinely profitable relationship. With the Mikado-Kiosks a system was introduced that should attract the customers to come to a branch but offers different electronic services to the customer as well.

With the introduction of a so called value network it has been shown how it is possible for a bank to build up a successful e-commerce platform for non-banking products in cooperation with other service providers. For us and for our partners this value network has been very successful.