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PRIVATIZATION OF BANKS IN SERBIA AND NEW GENERATION BANKING PRODUCTS

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Abstract:

Financial activities possess certain specificities compared to the real sector of the economy. These specificities, within the political and economic environment corresponding to the economy in transition, have influenced the manner, flow and quality of the privatization of banks in Serbia. The account statement of this segment of the transition process, almost twenty years after the formal beginning of the privatization of the banking sector in Serbia, clearly indicates that the number of banks has been largely reduced, that the structure of banks is dominated by foreign banks, but also that significant progress has been made in modernizing business processes. The Internet's omnipresence has enabled a revolution in the services that banks provide to clients and firms, primarily through the automation of certain processes and implemetation of efficient software solutions based on web technologies. Via e-banking, clients are given insight into the current balance of accounts, cards and loans, or the realization of transactions or exchange without going to the bank, while m-banking popularization enables the use of a smartphone as an electronic wallet. New technologies have enabled the centralized collection and intersection of data from various sources, which makes it possible for the bank to gain insight into the clients' finances and, based on this, to make a quality business decision.

Keywords:
privatization, banks, modernization, e-banking, web applications

INTRODUCTION

Two decades after the formal beginning of the privatization of banks in Serbia, this process has not been fully completed yet. The initial wave of the privatization, culminating in the middle of the first decade of this century, had a positive impact within a short time on foreign investors and Serbian banks alike. The latter operated in the 1990s in economic environment characterized by political instability – manifested through sanctions, war conflicts, NATO aggression, and macroeconomic instability, caused by hyperinflation and the creation of a parabank system consisting of pyramid banks, which operated with the aim of further developing gray shadow economy and enabling a small number of individuals to become wealthier.

From the point of view of foreign investors, Serbia was recognized at the beginning of this century as a market of great potential, where solid business positions could be built at a minimal cost and profit could be achieved in a short time. On the other hand, the arrival of foreign banks in Serbia, whether in the form of greenfield investments or the privatization of existing banks with majority social capital, undoubtedly had a number of positive effects on the development of the banking sector and defined new directions of the banking development and new ways of providing financial services to clients. The first positive effects of bank privatization were reflected in a drastic decrease in the number of banks operating on the market, the restoration of citizens' confidence in banks, an increase in the number of employees in this sector, and an improvement in the speed and quality of financial services.

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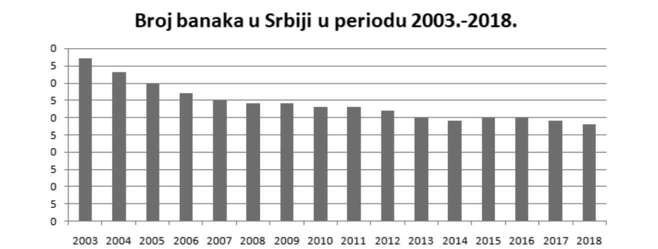
This first positive wave of the privatization, at the end of the last decade, was briefly interrupted by the global economic crisis. Fortunately, economic analyses showed that the negative effects of the crisis did not have a prolonged effect in Serbia, therefore, in accord with new possibilities, the process of bank privatization continued during the second decade of this century.

Picture 1: The number of banks in Serbia in the period from 2003 to 2018



Source: The National Bank of Serbia work reports from 2003 to 2018

The next wave of bank privatization in Serbia took place in a changed economic environment and was accompanied by debt insolvency, increasing uncollectible claims and the issues of structural adjustment, implemented through various economic policy concepts. The problems that occurred in the second wave of bank privatization were not the result of the global economic crisis, but rather of the transition crisis Serbia has been going through for almost three decades. This crisis has definitely affected the country's financial system, having an effect on all its aspects and sporadically calling into question its stability, and consequently the stability of the entire economic system.

Despite the fact that under the umbrella of economic patriotism in Serbia it is increasingly popular to say that, with regard to preserving financial stability, the majority holding of foreign banks in the structure of the banking system is unfavourable in the long run, it may also be questioned whether the variety of current banking products and the quality of banking services would be at such a high level if most banks had remained domestically owned.

What initiated the modernization of financial services was a struggle for clients and the pursuit of as much share on the market with aggressive competition as possible. With the arrival of foreign banks, sophisticated banking products and services based on new information and communication technologies appeared. The prerequisite for the implementation of such solutions was the third industrial revolution, which meant establish the appropriate communication infrastructure at state level (cable system, optical networking, mobile telephony network), as well as the beginning of the extensive use of the Internet and the new generation of mobile devices (smartphones and tablet computers) by the average consumer (Statistical office of the Republic of Serbia).

PRIVATIZATION OF BANKS AS PART OF THE TRANSITION PROCESS

The first attempt to formally privatize the banking system in Serbia occurred in the early 1990s by transforming socially owned banks into joint-stock companies (Drašković, B, 2010: 20). Deposit companies converted a segment of their deposits into capital and, as shareholders, supported the initiative to conduct the policy of negative interest rates, which made it possible to obtain high debt profit on borrowings. In this way, the existing equilibrium of the banks' balance sheets was called into question, their assets were devalued, whereas the shareholders' interest, from dividends and capital gains, was diverted to earning debt gain from borrowings (Ostojić & Petrović, 2017). This quasi-privatization created a vicious cycle of inefficient and unprofitable business.

As early as the late 1990s, the return of the banking system to the track of proper and profitable business was recognized as a necessary condition of overcoming the obstacles of the transition, and the way out of this situation was possible in two ways:

- by gradual change in the ownership structure through an issue of shares on the stock exchange; and
- by a radical, one-off change in the bank ownership and management structure (Božić, Miljković, 2007).

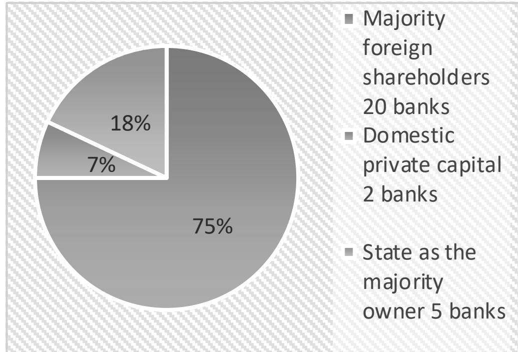
Increased claims, filed against banks by the state, as well as against the state by international financial institutions, and the awareness of the necessity of introducing economic reforms and of the beginning of the banking system "cleanup", led to making a new law on banks. The law came into effect in 2001 and transferred banks' liabilities to the state, whereas the state, in turn, became their owner. A decision was also made on the issue of state shares and their sale on the stock exchange, in order to obtain the money needed for financing the state's new commitments to the Paris and London Clubs of Creditors. The nationalization of banks was a step forward in terms of simplifying the procedure of their further privatization, especially for interested strategic partners from abroad. However, it was simultaneously a step backwards, creating confusion about realistic assessment of the debt of a large number of companies to the Paris and London Clubs. This situation impeded the process of the privatization of domestic companies and, in the initial transition period, significantly reduced their chances of attracting foreign direct investments. In a wide range of economic reforms, the orientation towards the real privatization of the banking sector in Serbia became a priority and an activity on which the successful implementation of reforms of the entire economic system depended.

The year 2001 is considered to have marked the beginning of the privatization process of banks in Serbia, in accordance with and in the manner of the transition process. In that year, following the decision of the National Bank of Serbia, the four largest Serbian banks at the time – Beobanka, Beogradska Banka, Jugobanka, and Investbanka – were liquidated. One specific common feature of these banks, in the pre-transition period, had been the imbalance between the exact definition of social capital (seen as everybody's and nobody's property) and the status of a for-profit institution, conditioned by the nature of banking. From the perspective of business activities, these banks had been characterized by a traditional approach to business and a poor offer of banking products. The main task of the privatization, as an instrument of the banking system transition process, was to distance Serbian banks from the business strategies they had applied in the pre-transition system and to include them in the market economy. For instance, in the pre-2001 period, political lobbying for the issuance of certain credit lines and loans, known in advance as loans not to be repaid, used to be a common way of doing business in domestic banking. In the developed economies, however, it only represented a theoretical model of the banking system regulation. The new market banking system meant the complete elimination of such business practices, which not only failed to comply with market principles of the economy, but also led to incalculable consequences in the form of the accumulation of disputable and uncollectible receivables, faster growth of high-risk assets in the balance sheets, and finally, the collapse of a large number of banks.

BANK OWNERSHIP STRUCTURE IN SERBIA AND NEW BANKING PRODUCTS

The practice of monitoring the dynamics of the privatization process of domestic banks and changes in the ownership structure of the domestic banking system in Serbia began in 2008, when the National Bank of Serbia started publishing data on the participation of foreign financial groups in the banking sector capital. In that year, the domestic banking market had between 33 and 35 banks in business, with the bank market share in the majority foreign ownership at around 60% (Dimić & Barjaktarović, 2017). In the following years, the market share of domestic banks was permanently reduced, while the number and market participation of banks with foreign capital increased. In 2018, the domestic banking market had 27 banks operating. Seven of these domestically-owned banks achieved a 25% market share, while the market share of banks in the majority foreign ownership was 75% (The National Bank of Serbia work report for 2018).

Picture 2: Bank structure in Serbia according to the ownership and market share in 2018



Source: The National Bank of Serbia work report for 2018

In the structure of foreign banks operating in the Republic of Serbia, the ones with the greatest market participation are those from Austria, then from Italy, France, Greece, Slovenia, and Hungary. Even though the structure of foreign banks on the Serbian market is characterised by a variety of what exactly so that in Serbia today there are banks whose capital originates from China, Russia, the USA, the United Arab Emirates, Cyprus, and Denmark, it could be said that in the first wave of the privatization process, at the beginning of the century, the proximity of markets played a significant role in the realization of this kind of investment projects. The first banks to have operated on the Serbian market, in the form of greenfield investments, were from Greece (the National Bank of Greece) and Austria (Raiffeisen Bank). As early as the beginning of the development of their business activities in Serbia, many advantages became obvious. These advantages were primarily reflected in restoring the stability of the monetary system and then in the satisfaction of the users of banking services, who, as a result of the business activities of foreign banks, were offered a wider range of banking products. This offers, as the number of foreign banks operating in Serbia rose, became increasingly diverse and of better quality. Foreign banks, soon after arriving in Serbia, "enriched" the small range of offers of the domestic financial market with an old, largely forgotten product – cash loans. Although the loans were granted under extremely unfavourable conditions with high interest rates, the citizens' borrowings from banks became very frequent. People's great interest in this kind of loans made it possible for the banks to place other kinds of loans on the market: loans for purchasing, construction and adaptation of real estate, car purchase loans and a variety of loans intended for the sector of small and medium enterprises, – from loans for liquidity improvement to loans for the procurement of business equipment. Banks used these deficiencies in banking industry and "hunger" of people for cash money to earn in high interest margins. The possibility of taking cheap loans in the home country and placing these funds in Serbia, at higher interest rates and with security means solidly charged, made this region even more suitable for the development of the banking business. On the other hand, incomplete and inappropriate legal regulations in Serbia, as well as impaired domestic banking system, at that time did not provide fertile ground for creating a more stable banking system, which, supported by monetary authorities, could reduce extremely high interest rates.

Opportunities for good profit of foreign bank branches on the financial market of Serbia lasted until 2008 and the outbreak of the global economic crisis. The world financial system was the first to have been be hit by the crisis, which inevitably affected the banks'operations. Withdrawing foreign bank branches from Serbia and neighbouring countries to their home country or selling branches to other banks were the first measures taken to protect capital from negative effects of the global economic crisis, and many foreign banks operating on the Serbian market resorted to these measures. The consequence was a new change in the structure of the Serbian banking market: some banks withdrew from the Serbian market, while others remained in the hands of the same owners or were sold to other foreign banking systems that continued to operate. This re-privatization took place under unavoidable circumstances, but in an environment in which the privatization of the financial system had not been completed yet.

During the further next phase of privatization process, in the second decade of this century, the number of foreign banks in Serbia has remained approximately at the same level as before the world economic crisis, whereas capital has been mainly placed as a brownfield investment or through merging of domestic and foreign banks. The fact that the number of foreign branches is larger than the number of domestic ones has also entailed the monitoring and implementation of European and world business methods in this area and a growing number of sophisticated banking products on the Serbian market. What should definitely be emphasized among these products and technological solutions is the development of electronic banking, which gives clients the possibility of constant insight into the account balance and turnover, allowing transactions to be carried out at low costs from any place, which provides and providing a faster, less time-consuming turnover of means (Sanader, D, 2014, 90). A greatly diverse offer of payment cards, from debit ones that allow the use of available means, through credit ones, to those intended for deferred payment or payment via the Internet, is also a result of the Internet revolution in banking and the efforts to make banking services widely available without physical or temporal limits. The dynamic progress of information technologies and telecommunications has enabled banks to further develop in this area and promote mobile banking as the most sophisticated form of providing banking services so far (Jovanović, B, 2017). Mobile banking enables customers to perform account transactions via mobile devices. In this respect, many user applications are now available. The permanent development of information technologies and the fact that banks operate in a dynamic environment and are exposed to continuous challenges of adapting to the changes in this environment are in favour of the further development of service technologies and an even wider spectrum of "smart" banking products, available to customers in the future. On the other hand, the development of banking products from the bank's perspective,involves more competitiveness, a higher market rating, and consequently, more profitable business activities (Laukkanen, 2017, 1043).

IMPLEMENTATION OF WEB TECHNOLOGIES AND NEW GENERATION BANKING PRODUCTS

Strong competition requires additional efforts to survive on an unpredictable market. The aim of every bank is to have its client database as large as possible, have an offer of products as attractive as possible, cover the area of its operations as efficiently as possible through a network of organizational units, but also to optimize its business by reducing operating costs.

Adjusting working hours of the domestic economy and the service industry to "European working hours" from 9am to 5pm has provoked a problem for both the economy and banks. Employees are forced to leave their workplace during working hours to finish the necessary tasks in the bank, long queues are formed in branches and in front of their counters, while working hours are being wasted in the real sector. In contrast, banks are under pressure to be physically present in as many locations as possible, which involves increased costs of renting and furnishing office space, as well as the costs of hiring additional workforce.

Table 1: e-Banking online services among general population in Serbia

	Age						Sex		Education			Employment				
	o	25-34	35-44	45-54	55-64	65-74	M	F	Elementary	High school	College or higher	Employed	Unemployed	Student	Other	Total
Usage	12.8	26.9	29.1	28.6	17.4	10.6	23.9	22.2	8.4	20.5	44.4	37.6	9.1	26.9	10.6	23.1
Security concerns	10.5	12.4	23.0	18.0	18.9	14.5	15.8	17.7	13.8	17.7	17.2	19.0	14.1	14.4	16.1	16.8

Source: Statistical Office of the Republic of Serbia

Extensive use of computers and smartphones, Internet access, the development of web technologies and applications have enabled the automation of some essential banking processes, while a specific set of services has become available to clients for use from home, from the office, or via a mobile phone, 24 hours a day, 7 days a week. With the implementation of new information and communication technologies, bank clients no longer need to interrupt working hours in order to go to a branch, while banks, have created conditions for optimizing operating costs by transfering a segment of their business activies to the Internet, which resulted in a reduced number of organizational units and employees.

The banking sector depends on customers, therefore, it does not surprise that CRM (Customer Relationship Management) systems have become strategically important. Customer relationship management enables banks to make a profit through a long-term relationship with a customer, which is only possible by implementing a quality information system.

From the status of an additional, exotic service, e-banking has become a standard service within only several years, taken for granted as a service supported by banks. It enables clients to check the current balance of accounts, cards and loans via the Internet, as well as to complete transactions or exchange without going to the bank.

The main advantages of e-banking are an increase in the efficiency of the bank's operations and a rise in the number of services, which significantly saves time for both the bank's clients and the bank's employees. The service is available 24 hours a day, including weekends and public holidays, when organizational units are closed. An additional benefit of e-banking is the passive protection of customers from attempted robberies, as the process itself does not involve working with cash.

Notwithstanding these advantages, caution is required when using e-banking services, as there is a possibility of failed transactions due to unforeseen technical errors, data entry errors, or the so-called phishing attacks, in which an attacker presents himself/herself as a legitimate entity, with the aim of stealing the client's identity or confidential information, such as e-banking access credentials (Aburrous et al., 2010; Litan, 2004).

M-banking is another service provided by domestic banks, which enables users to make financial transactions by using mobile devices, such as smartphones or tablets. Although the real limitations of such a service are the capabilities of the device itself, e.g. screen size, the type of communication with the user (physical keyboard or touch screen), software solutions have been developed at a sufficient level to provide the client with the necessary information (Sripalawat et al., 2011).

New technologies have enabled the centralized collection and intersection of data from various sources, used by banks to almost instantly gain insight into the finances of a current or potential client and make a favourable business decision. Data on indebtedness to 29 domestic banks and 16 leasing companies, state funds and the Serbian Export Credit and Insurance Agency are taken from the Credit Bureau. In addition to banks, these data i are also available to mobile operators.

Unfortunately, domestic banks have not yet fully adapted their products and services to the needs of the population and industry. As an example, we could mention the IT industry, which is dominated by foreign inflows from both legal and natural persons. Microtransactions are very frequent in IT, but banks will charge a fee of $ 150 for a $ 1 transaction, leaving the customer overdrawn by RSD 50 after the transaction. In addition, for every foreign currency transaction in excess of EUR 1000, commercial banks require a written statement of the purpose of the transaction before payment, justifying this procedure by the combat against money laundering and terrorist financing. The clients' response to this practice is the realization of multiple transactions for amounts less than EUR 1000, in which case, however, they pay a higher commission to the bank (Kutlača et al., 2018).

CONCLUSION

The privatization of banks in Serbia is a process that has not been completed yet. Previous experiences and results of bank privatization, and the impact of this part of privatization on the development of other sectors of the economy, call for a review of the decisions made. In this context, the question that often arises is whether the stability of the financial system would be equally preserved if the reverse strategy had been applied in the privatization of banks, that is, if an effort had been made to retain the system of the majority share of domestic banks in the structure of the banking system. Examples of this strategy model can be found in some neighbouring countries, indicating that this kind of property ownership equilibrium of the domestic financial market as a whole is a condition of achieving long-term economic stability. However, in the context of EU membership and, in particular, the Eurozone membership, this concept is unsustainable. On the other hand, it is clear that a smaller extent of bank privatization than the one implemented in the last two decades would have left a number of banks in Serbia outside the modernization process, that is, these banks would not have a diverse range of banking products, nor the level of modernization of business processes they have today. The privatization of banks in Serbia and, above all, the arrival of foreign banks have created business continuity and enabled the market of financial services in Serbia to follow the dynamics of the development of financial markets in modern European countries, which is most of all beneficial to the users of financial services.

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