

# **The analysis of direct banking services in Komerční banka a.s.**

Veronika Bakalíková

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Bachelor Thesis  
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**Tomas Bata University in Zlín**  
Faculty of Humanities

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Fakulta humanitních studií  
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## **ZADÁNÍ BAKALÁŘSKÉ PRÁCE**

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Zásady pro vypracování:

**Teoretická část** Popis českého bankovního systému, role České národní banky a obchodních bank Pojem přímé bankovníctví a jeho penetrace do českého prostředí Služby přímého bankovníctví dostupné na současném bankovním trhu Posun v roli klasických bankovních poboček Popis Komerční banky a.s. z hlediska vývoje služeb přímého bankovníctví a jejich hlavních konkurentů na bankovním trhu Praktická část Charakteristika služeb přímého bankovníctví nabízených Komerční bankou a.s.

**Služby přímého bankovníctví nabízené Komerční bankou a.s. z pohledu zákazníka a banky samotné**

**Konkurenční srovnání služeb přímého bankovníctví nabízených Komerční bankou a.s., silné a slabé stránky jednotlivých služeb oproti konkurenci**

**Návrhy na zlepšení fungování systému služeb přímého bankovníctví v rámci proklientského přístupu Komerční banky a.s., závěry**

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**Mgr. Věra Vabroušková**

Ústav anglistiky a amerikanistiky

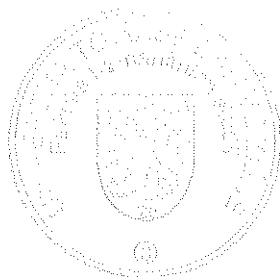
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Handwritten signature of Vlastimil Švec in black ink.

prof. PhDr. Vlastimil Švec, CSc.  
*děkan*

L.S.

Handwritten signature of Anežka Lengalová in black ink.


doc. Ing. Anežka Lengalová, Ph.D.  
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## **ABSTRAKT**

V mé bakalářské práci se zabývám službami přímého bankovníctví nabízenými v českém finančním sektoru, přičemž se soustředím zejména na služby nabízené Komerční bankou a.s.

V teoretické části se zabývám bankovním systémem České republiky a popisuji služby přímého bankovníctví využívané v České republice a nabízené Komerční bankou a.s., stejně jako její hlavní konkurenty.

V praktické části se věnuji charakteristice jednotlivých služeb přímého bankovníctví nabízených Komerční bankou a.s. a konkurenční analýze, na které stavím následná doporučení.

**Klíčová slova:** banka, přímé bankovníctví, telefonní bankovníctví, internet, internetové bankovníctví, služby přímého bankovníctví

## **ABSTRACT**

This bachelor thesis deals with the direct banking services offered within the Czech financial environment with particular focus on services provided by Komerční banka a.s.

Theoretical part focuses on the banking system used in the Czech Republic and generally introduces the services of direct banking in the Czech Republic with particular focus on Komerční banka a.s. and its main competitors.

The analytical part deals with the characteristic of services provided by Komerční banka a.s. and competitive analysis of these resulting in suggestions for improvement.

**Keywords:**

bank, direct banking, phone banking, internet, internet banking, direct banking service,

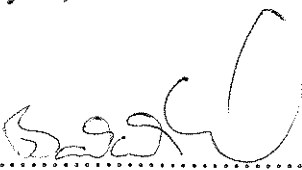
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**DECLARATION OF ORIGINALITY**

I hereby declare that the work presented in this thesis is my own and certify that any secondary material used has been acknowledged in the text and listed in the bibliography.

May 12, 2009

  
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## INTRODUCTION

The fast changing society requires highly flexible and up-to-date access to its finance, thus, the direct banking services have become an indispensable foundation for everyday dealing with our financial affairs. I have chosen this topic since I have been employed by one of the Czech leading financial institutions since 2008 and have become particularly interested in direct banking services as serving one of their channels.

In my bachelor thesis I focus on the products of direct banking currently available on the Czech financial market with particular interest in products offered by Komerční banka a.s. The theoretical part of my thesis deals with both the Czech banking system and essential information on direct banking services as well as with relations of these and traditional branches. Komerční banka as an institution providing direct banking services and its main competitors are introduced in very last section of the theoretical part.

The analytical part of my thesis is focused on detailed characteristics of Komerční banka's direct banking products and provides a reader with competitive analysis of these comparing the products with those offered by its main competitors. The whole thesis is concluded by the suggestions revealing the main weaknesses of the products of direct banking offered by Komerční banka a.s.

## **I. THEORY**

## **1 THE BANKING SYSTEM IN THE CZECH REPUBLIC**

The whole very first part of my thesis dealing with the banking system in the Czech Republic is based on information found in the books by Zbyněk Revenda, *Peněžní ekonomie a bankovníctví*. 4th ed. Praha: Management Press, 2005 and *Centrální bankovníctví*. 2nd ed. Praha: Management Press, 2001. In the Czech environment, a bank plays a critical role in the functioning of the financial market. A primary task of a bank in the Czech financial environment is seen in the redistribution of financial resources between those who are in the possession of them and those who need them-accepting deposits and borrowing from these deposits.

The banking system of the Czech Republic is comprised of two parts with one central bank (Česká národní banka) serving as the state institution with the macroeconomic function on one side and trade banks covering the microeconomic functions on the other side.

### **1.1 The key roles of Česká národní banka**

While a trade bank provides services to a customer, the Česká Národní Banka (hereinafter called ČNB) is the state institution devoid of any business activities. Therefore the ČNB plays the role of a safeguard mainly in the questions of a currency stability and monetary policy. The following subchapters describe the main roles of ČNB in the Czech financial environment.

#### **1.1.1 The regulation of monetary policy**

The main objectives of the ČNB on the field of a monetary policy lie in the subvention of the price-level stability along with the economic growth, employment increase, currency exchange rate stability and interest rate stability

According the type of an objective the ČNB aims to achieve there exist three models of a monetary policy to be chosen from:

- expansive monetary policy
- restrictive monetary policy
- neutral monetary policy

#### **1.1.2 The currency issuance**

The currency issuance is another function which has always fallen under the competency of the central bank since established. As the process has been monopolized, only the ČNB is entitled to issue currency in the Czech Republic.

The function used to be widely employed in past before the cashless transfers were introduced. As the central bank could have easily monitored and influenced the amount of money in circulation.

### **1.1.3 The commercial banks support function**

Unlike the previous ones, the bank support task fulfills the role of a microeconomic function. The ČNB holds accounts and the clearance of operation between individual commercial banks. ČNB also receives deposits and provides loans to commercial banks when a need emerges.

### **1.1.4 ČNB as the bank of the state authorities**

The ČNB serves as an institution conducting financial operations of the Czech government, central authorities and a number of companies with the state share.

The key role of the ČNB lies in the operations related to the National Debt. The bank covers particularly the areas of credit extend, installments on a credit, interest payments and bonds issuing. However, the ČNB holds all the accounts related to a revenues and expenses of the state budget such as taxes, social and health insurance or unemployment and old-age benefits.

### **1.1.5 The foreign exchange reserves administrator**

The ČNB carries the foreign-exchange reserves and operates on an exchange market in order to achieve a stable currency, ensure the foreign exchange liquidity and its standard value. Such an operation involves exchange-rate hedging achieved by the changes in a structure and a volume of foreign-exchange reserves in accordance with the current trends on an exchange market.

### **1.1.6 Regulation and supervision of the Czech banking environment**

The banking industry has always been one of the most government-regulated environments. The reasons for such a strict regulation and close supervision come from both macroeconomic and microeconomic sphere, while from the macroeconomic point of view the stress is laid upon the creation of an environment for successful monetary policy, the microeconomic factors include mainly safety, trustworthiness and an effectiveness of the Czech banking system.

### **1.1.7 The state financial affairs representative**

The ČNB acts as a representative towards both the Czech and foreign public regarding the area of monetary policy. Providing information on current changes in currency development, difficulties and proposed solutions, the ČNB endeavors to build the trustworthy image in the eye of the public. The ČNB also stands for a representative of the Czech Republic financial affairs within the range of international institutions (International Monetary Fund, World Bank, World Trade Organization)

## **1.2 Commercial banks in the Czech banking system**

Although the commercial banks play various roles within the Czech economics, their main goal as entrepreneur units is to achieve certain profit as contrasted to the central bank in which the profit appears only as the secondary product of the actions leading to a stability of the Czech currency and therefore the Czech economics.

Unlike other entrepreneurs the banks are forced to follow certain strict rules and regulation specific for the banking environment. The conditions under which an institution might be registered as a commercial bank are clearly specified in The Bank Act 21/ 1992.

According the act an institution may apply for the bank status if:

- Accepting deposits
- Advancing credits
- Being corporate body
- Established in the Czech Republic
- Fully licensed by the ČNB

### **1.2.1 The structure of a commercial bank profit**

When a record shows a higher figure of revenues comparing to the costs a bank achieves the profit. The structure of revenues consists of either interests from advanced credits and charges for services provided. While, the costs are generally characterized by the interests paid, charges paid and operational costs.

Generally, the Czech banking environment is characterized by high charges for bank operations whilst a European banking environment tends toward investment which is the issue currently discussed among both the wide public and banking sector specialist. Though the Czech banking environment has been criticized for relying on charges rather than gaining profit from investment operations, the recent development has shown that this

action saved the Czech financial institution from immediate bankrupt which has affected a lot of financial institution abroad.



## 2 THE NOTION OF DIRECT BANKING

Direct banking, often termed also electronic banking, has registered heavy expansion since being launched by Expandia bank in 1998. Caused by new safer and faster technologies being developed, a customer physical present in a bank becomes more and more infrequent.<sup>1</sup>

The customers are offered a virtual self-service which bring more independence into the strict banking sector therefore a bank service is extended beyond the opening hours of a classic branch. The term is based on a pro-client approach combining both e-banking services and direct contact with a customer. Therefore a customer's needs are utilized throughout all channels provided by a bank. An extensive part of services may be centralized when an appropriate combination of transactional and communicational channels is implemented. Consequently, a bank reduces the number of branches which brings the extensive costs cut-down and remaining branches may focus on cross-selling, customer acquisition and accommodation of customers when dealing with the alternative ways of banking.

The services of direct banking cover the range of customers segments according to their needs. The core task of direct banking lies in establishing of self-service and flexible channel to ensure that customers' enquires are served efficiently. Most Czech banks currently provides the services of Internet Banking, Home Banking, Phone Banking, GSM Banking, SMS Banking and WAP Banking<sup>2</sup>

Though direct banking is the general term including wide range of services, the demand for direct banking services has been continuously rising along with the penetration of an internet connection to the households in the Czech Republic.

### 2.1 Penetration of direct banking services

The first institution to bring the term direct banking and its translation into the Czech language has been Expandia bank. The Internet Banking, Phone Banking, GSM Banking and WAP Banking applications had been launched in 1998, followed by PDA banking few

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<sup>1</sup> Jaroslav Kafka, "Přímé bankovníctví", *FinExpert.cz*,  
<http://www.finexpert.cz/default.aspx?section=17&server=1&article=17385>

<sup>2</sup> Tomáš Pardubický, "Elektronické bankovníctví není tak snadné, jak se zdá", *First innovation park*,  
[http://www.park.cz/elektronicke\\_bankovictvi\\_neni\\_tak\\_snadne\\_jak\\_se\\_zda](http://www.park.cz/elektronicke_bankovictvi_neni_tak_snadne_jak_se_zda)

months later. The bank came with all the channels at once offering them as a part of one information system which allowed all the data being shown as one real-time picture of all banking operations processed. The only service not being offered by Expandia bank had been a Home banking service which would have not brought any benefit to a customer (comparing to the complex service of Internet banking).

The Homebanking services had been offered by several banking institution before the launching of Expandia's products, however, the vast majority of them had been expensive, incomplete and rarely used services targeted on a corporate sector.

Motivated or more likely forced by the Expandia's innovation on the Czech market other banking institution followed its action within a relatively short period.

Unlike Expandia bank, which launched their activities as a new entrance into the Czech banking environment, the well-established Czech institution had been forced to reconstruct their expensive, proved and well-running system in order to keep with the changes and competitors. Facing the high demand for independent services offered by Expandia and its success on a market, these institution had to react and came with the similar options as soon as possible.

In 1999 the Česká spořitelna, Komerční banka, Union banka IPB, ČSOB and Bank Austria/Creditanstalt introduced their services of Phone banking. The first versions of Internet banking were brought by Živnostenská banka, Union Banka, Raifeisenbank and GE Money Bank in 2000 whilst ČSOB focused on the service of GSM banking. Though launching these services the banks had been continuously developing their application of Internet banking and GSM banking, so that with the coming of a new millennium they were able to offer highly-sophisticated and mature services.

The 21st century has brought a new generation of customers demanding easy accessibility, mobility, independence and reasonable price.

Not being interested in systems a bank built their services on, a modern customer seeks for high standards with the stress laid upon a safety of transactions, processing speed and a range of services included.<sup>3</sup>

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<sup>3</sup> Jaroslav Kafka, "Přímé bankovníctví", *FinExpert.cz*,  
<http://www.finexpert.cz/default.aspx?section=17&server=1&article=17385>

## 2.2 Survey of direct banking services

There exist at least two approaches when distinguishing the services of direct banking. Firstly, according to a form of the remote access, we recognize 4 major types of services- Home banking, Internet banking, Phone banking and GSM banking.

Secondly, the distinction depends on whether the service has been developed to provide information or to enable customers to carry out their banking operations. According to this criterion the services are divided into passive and active. While the passive services provide information on a customer's account (e.g. current balance and a history of transactions), the active services enable an interactive administration of their accounts and transactions.<sup>4</sup>

Currently, vast majority of services offered within the Czech banking environment fall into an active category as the society and therefore most customers tend to move towards flexibility and an accurate time management to achieve balance between professional and personal life.

### 2.2.1 Character of the major direct banking services

#### *Phonebanking*

The service of Phone banking is based on a communication of customer with either a Phonebanking specialist or an Interactive Voice response (IVR) system throughout a phone.

Interactive Voice Response system enables a bank to build an interactive menu for a customer, using either keypad or voice a customer is led step by step throughout a menu until reach a service required. The system decreases number of customers queuing on a phone waiting for a specialist as many enquires might be sort out through an interactive menu.<sup>5</sup>

The major number of services provided by the Czech banking institutions enables customers to set of payments and standing orders, provides information on movements on their accounts and deals with other enquires concerning their services as well as problems with other applications run by a bank.

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<sup>4</sup> Máče, Miroslav. *Platební styk : klasický a elektronický*. Praha: Grada Publishing, 2006.169

<sup>5</sup> "IVR", *Algotech*,  
<http://www.algotech.cz/cs/ivr>

The safety of a service is provided by an identification followed by an authentication using a unique personal identification number (PIN) and access password. Customer friendly service advantage comes with an easy, free and fast access along with the minimal technological and skill requirements<sup>6</sup>

### *GSM banking*

The channel represents the system of payments built on clients operating their account by means of a mobile phone using specific communication standards.<sup>7</sup>

Above all, the service of GSM banking is offered throughout ciphered SMS messages. The structured SMS messages are required to be sent in an exact-defined format. Although widely used, particularly in past, the system requires a customer to memorize exact formats for an each individual type of order, providing user unfriendly interface.<sup>8</sup>

Secondly, SIM Application Toolkit technology, enabling a SIM card to perform various added services. The application sends a SMS message to a bank's software, consequently a message is deciphered, and requested action performed while a customer receives a confirmation SMS message. The services offered through this application are more comfortable as a client does not need to memorize individual orders; the software installed creates an user friendly menu.<sup>9</sup>

Finally, the WAP technology initiates an internet communication based on the Wireless Communication Protocol combining the features of Phonebanking and Internet banking. The technology enables accessing a bank's website adapted on a small-sized mobile phone screen.<sup>10</sup> As the technology has seen heavy progress in the recent years, WAP users are provided with a high-speed internet access and therefore with an increase in a transmission speed enabled by the state-of-art 3G mobile phones.<sup>11</sup>

### *Internet Banking*

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<sup>6</sup> Máče, Miroslav. *Platební styk : klasický a elektronický* . Praha: Grada Publishing, 2006.171

<sup>7</sup> Máče, Miroslav. *Platební styk : klasický a elektronický* . Praha: Grada Publishing, 2006.171

<sup>8</sup> Tomáš Pardubický, "Elektronické bankovníctví není tak snadné, jak se zdá", *First innovation park*, [http://www.park.cz/elektronicke\\_bankovictvi\\_neni\\_tak\\_snadne\\_jak\\_se\\_zda](http://www.park.cz/elektronicke_bankovictvi_neni_tak_snadne_jak_se_zda)

<sup>9</sup> Pavel Zaboř, Oldřich Mrázek, "SIM Application Toolkit - Stará technologie pro nové aplikace", *hw.cz*, <http://hw.cz/Produkty/Obecne-produkty/ART1139-SIM-Application-Toolkit--Stara-technologie-pro-nove-aplikace.html>

<sup>10</sup> Tomáš Pardubický, "Elektronické bankovníctví není tak snadné, jak se zdá", *First innovation park*, [http://www.park.cz/elektronicke\\_bankovictvi\\_neni\\_tak\\_snadne\\_jak\\_se\\_zda](http://www.park.cz/elektronicke_bankovictvi_neni_tak_snadne_jak_se_zda)

<sup>11</sup> Máče, Miroslav. *Platební styk : klasický a elektronický* . Praha: Grada Publishing, 2006.

The system offers a communication with a bank's software through any internet connected personal computer (PC) available. As a customer may use a service wherever being and whenever needed, the system has become widely used between both the retail and corporate sector.<sup>12</sup>

A client is log in to a bank's system through a genuine electronic signature or digital certificate and unique password or PIN code. After the process of an identification and authentication is completed, clients enter their account on a bank website.

The system of internet banking requires sophisticated method when coming to the terms of a data transmission safety. The methods of a protection vary and depend on customer's needs, expectations and credibility into the large extend. While common users require standard safety, an advance user such as large corporate expects highly-sophisticated solution combining a number of identification and authentication methods.

The system of internet banking provides similar range of services as the Phonebanking does. The core advantage of the Internet banking system is seen in a visual online information as a visual perception has been preferred by man ever since. Moreover, customers appreciate relatively independent access to their finance offering possibility to conduct their own financial operations.

In general, the services offered by the Internet banking includes setting up one-time payment orders, setting up standing orders, transactions and getting common information provided by a financial institution.<sup>13</sup>

### *Home banking*

The service is characterized by an interface resembling that of the Internet banking. Whilst the system of Internet banking enables clients to access their account via any personal computer or laptop connected to the Internet, the Home banking system requires a customer to install certain software into one computer, whereas, an installation may takes place only once. Thus, a customer is enabled to access an account exclusively throughout one certain computer connected to the Internet.

The system used to be considered as much safer comparing to the customer protection provided by the Internet banking system. However, the safety of internet transactions has

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<sup>12</sup> Tomáš Pardubický, "Elektronické bankovníctví není tak snadné, jak se zdá", *First innovation park*, [http://www.park.cz/elektronicke\\_bankovictvi\\_neni\\_tak\\_snadne\\_jak\\_se\\_zda](http://www.park.cz/elektronicke_bankovictvi_neni_tak_snadne_jak_se_zda)

<sup>13</sup> Máče, Miroslav. *Platební styk : klasický a elektronický*. Praha: Grada Publishing, 2006.172

improved during several last years, consequently, the core advantage and main argument provided by the users has been continuously losing its importance.<sup>14</sup>

A limited access along with the costs connected with a need to install and reinstall a software when necessary has led towards a decreasing demand, moreover, the large number of financial institutions have already terminated an offer of the service, while another ones have not even come up with the system at all.<sup>15</sup>

The Home banking application installed in a personal computer provides a customer with the same services as the Internet banking. The safety of transaction and information transferred between a customer and a bank is carried out by a system of passwords, ciphered SMS messages and genuine electronic signatures.<sup>16</sup>

### 2.3 Role of traditional branches in the direct banking environment

A client approach towards traditional ways of banking and branches itself has moved rapidly along with the new entrances into the Czech banking environment as well as with the changing trends all over the world.

Although a client expectations and requirements has increased, it was primarily competition what forced the Czech banking institutions to come up with up-to-date technologies and implement a pro-client approach of direct banking into their philosophy.

The massive ingoing of direct banking, particularly electronic banking in 1998 brought radical changes into functional system of all financial institutions. In order to provide client-friendly and comfortable access to financial services, the banks had lessened the number of traditional branches and clients had been offered everywhere and anywhere accessible direct banking services instead.

Such a transition of tasks and responsibilities brought not only convenient services for clients but also remarkable savings on costs of an institution. By the time the Czech banking environment saw the lowest number of traditional branches in modern history and the pressure on the lowering still continued. This trend has been also reflected in a bank charges policy as well, clients have been enforced to reconsider services they originally

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<sup>14</sup>Tomáš Pardubický, "Elektronické bankovníctví není tak snadné, jak se zdá", *First innovation park*, [http://www.park.cz/elektronicke\\_bankovnictvi\\_neni\\_tak\\_snadne\\_jak\\_se\\_zda](http://www.park.cz/elektronicke_bankovnictvi_neni_tak_snadne_jak_se_zda)

<sup>15</sup>Jaroslav Kafka, "Přímé bankovníctví", *FinExpert.cz*, <http://www.finexpert.cz/default.aspx?section=17&server=1&article=17385>

<sup>16</sup>Máče, Miroslav. *Platební styk : klasický a elektronický*. Praha: Grada Publishing, 2006.173

used by not only a massive advertising campaign but also by an extensive increase in charges for services conducted by a branch. In most cases, they decided for one or more direct banking services as these offered charges at least half cheaper.

The following table shows the abysmal difference in charges for one- time payment order within the same bank as being charged by the Czech leading financial institutions in 2004. The table illustrates an effort of the Czech banks to move a considerable number of transactions from branches to the services of direct banking.

financial institution	branch	internet banking
eBanka	25,90 CZK	5,90 CZK
Česká spořitelna	53,00 CZK	2,00 CZK
Raiffeisenbank	25,00 CZK	3,00 CZK
Poštovní spořitelna	8,00 CZK	1,00 CZK
ČSOB	18,00 CZK	3,00 CZK
GE Money Bank	29,00 CZK	3,00 CZK
Komerční banka	20,00 CZK	3,00 CZK

The current situation and costs of direct banking services paid by a client will be discussed in the analytical part of the thesis.

Though the successful implementation of direct banking services brought considerable cost savings for a bank and improved services for a client, the financial institutions have been aware of an importance of personal approach and relation maintaining. Since 2005 the financial institutions have broaden out their branch network again, however, the function of a branch has been transferred from the point providing account administration and financial operations into the point providing financial consultancy and advertising.

### 2.3.1 A branch as the consultancy point

This trend has been tightly connected with a broad range of products and services offered by an institution. Particularly, the role of a relationship manager has become more and

more important as the range of products offered by an institution broadened and a need to guide a client through an extensive range of services has arisen.

The banks are aware of the fact that clients might have a hard time when going through a innovations on their own and it is a relationship manager who plays a core role in this stage, their personal relationship manager, a person who advice them, who they trust to much more than to a no named telebanking specialists on a phone or mere advertisement on a website. Therefore, a client who has not been in a personal contact with a bank for a while is more likely to switch an institution as no personal ties had been created and consequently no trust built. Thus, the deep cooperation between classical branches and direct banking channels seems to be necessary part of a successfully led financial institution.

### **2.3.2 A branch in the role of a living advertisement**

The second key task transferred into branches touches the area of advertising, while providing consultancy, a branch may mirror an image of a financial institution. This means that a branch tells clients about a bank, its philosophy and approach towards them, leaving them with either positive or negative experience.

However, the experience is not related only to attractive interiors and their visual effects, what a client prizes is the arrangement of a meeting together with queuing times and easy accessibility of all informational materials as well as a comprehensible offer of financial products.

### **2.3.3 Changes in location and their impact on the role of a branch**

The rapid changes in the Czech society and its movement towards a consume way of life has brought a need to reconsider locations of branches, while the most branches had been located on main shopping streets in past the massive ingoing of shopping centers and its transformation into the places of family amusement forced the banks to set up their branches there to suit customers' needs. Similarly, automatic teller machines, hereinafter called ATM, have been installed into those shopping centers.

The main difference between classic branch and a branch located in a shopping centre rises up when searching for opening hours. First, the opening hours are much longer in shopping centers, mostly till 8pm and 9pm; secondly, these branches are open during the weekends. The reason for this arrangement seems to be fairly comprehensible; these branches focus



primarily on the consultancy as the majority of clients prefer sorting out their financial affairs comfortably and together with their regular shopping and entertainment.<sup>17</sup>

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<sup>17</sup> Patrik Nacher, “Pobočka banky nebo přímé bankovníctví“, *bankovnipoplatky.com*,  
<http://www.bankovnipoplatky.com/autorske-clanky/pobocka-banky-nebo-prime-bankovnictvi-pro-aktualnecz-22112006-402>

### **3 KOMERČNÍ BANKA AS THE PROVIDER OF DIRECT BANKING SERVICES AND ITS MAIN COMPETITORS**

The whole following part dealing with Komerční banka is based on internal materials obtained in the company. Komerční banka is widely recognized as one of the leading institution on the Czech financial market. Moreover, as a part of the Société Générale group its backed by strength and experience of the international company operating all over the world.

Established in 1990, Komerční banka has provided a competitive range of services covering retail, corporate and investment banking for almost the last two decades. Consequently, eleven years later, the bank was sold by the Czech government to the French Société Générale group, the group took over its management rights which meant the beginning of the both services and activities enlargement. Therefore, Komerční banka represents an important part of the International Retail Banking business within this international group.

Currently, the bank serves 1 607 000 clients coming from all segments mentioned in the previous paragraph. The clients may access their accounts and the bank's services via direct banking channels as well as the network of 386 branches across the Czech Republic. The financial products offered by both channels might be divided into four main groups.

First, products of everyday banking:

- Current accounts
- Debit cards
- Direct banking

Secondly, insurance related products:

- Property insurance
- Car insurance
- Accidental insurance
- Life saving insurance

Thirdly, financing related products:

- Credit cards
- Consumer credits
- Student loans
- Mortgage loan

Lastly, saving and investment products

- Building saving
- Pension insurance
- Investment funds
- Investment life insurance
- Saving insurance

Concerning the direct banking services, the vast majority of the clients, talking in numbers 930 000 clients, use one of the channels provided as the financial operations set through these channels are considerably cheaper.

### **3.1 The development of direct banking services in Komerční banka**

Similarly to other leading financial institutions, Komerční banka launched its first direct banking product by the end of the last century. As the internet was only developing medium by that time, the logical step was to launch the service of phone banking.

The mobile phone network experienced significant expansion by the end of 1990s and customers longed for the service enabling them to reach a bank comfortably. Thus, Expresní linka was introduced in 1999 offering customers all features of phone banking. First, the service was run solely by a call centre based in Liberec; however the second call centre in Zlín started to operate in 2008. Currently, the clients are served by over 550 telebanking specialists dealing mainly with payment enquires. Nevertheless, the specialists also provide information on product features and make operational decisions providing solution when a client comes to difficulties. Since launched, the service has been widely extended and number of additional options has been introduced including a passive version of Internet banking. Expresní linka Plus provides passive information on an account which means that a client can not set payment orders. Therefore, the product serves mainly as an informative medium.

Though Komerční banka took its time while launching the product of internet banking, finally the service was introduced in 2001. The customers were offered to access their accounts through [www.mojebanka.cz](http://www.mojebanka.cz). The service called Moje banka requires a customer to fill in an electronic form; on the basis of this form an electronic certificate for personal information exchange is issued. The access to a service appears to be rather uncomplicated as only a saved certificate and a unique password is required. Since 2001 the services

offered by Moje banka has been enlarged and currently it also serves as the medium offering other products of Komerční banka, such as loans and credit or debit cards.

Another enlargement of direct banking services came with the launching of Mobilní banka. Year 2005 saw the implementation of this Mobil banking into the family of direct banking services. The service is closely related to Expresní linka as it is required when a customer wish to use Mobilní banka. Clients are enabled to access their accounts easily and independently via a keypad and a screen of their mobile phones using Java technology whilst no special SIM card is required.

To sum up, Komerční banka provides its customers with two primary means of direct banking-phone banking an internet banking. These two core services are set to be extended according to needs a customer. A detailed survey of services will be discussed later as a part of the analysis.

### **3.2 Survey of main competitors**

Direct banking services are regarded as a standard when talking about the products offered by the financial institution operating on the Czech market. Therefore, these can be found in a product portfolio of all Czech major banks.

Komerční banka belongs to a group of five leading Czech financial institution. According to my research concerning the number of customers, the leading position is held by Česká Spořitelna followed by Česká obchodní banka. The third position on the market belongs to Poštovní Spořitelna, while the fourth position is held by Komerční banka. The group of five is closed by GE Money. Therefore, these four institutions are main competitors of Komerční banka concerning both the portfolio of financial products and quality of direct banking services accompanying the offer of current accounts. However, the last trends have shown that not only the major institution stand for the competitors. The recent opinion poll on quality of financial services called Anketa Zlatý Měšec 2009 and conducted by the financial server Zlatý Měšec shows that clients tend to incline towards smaller financial institution. These institutions are forced to offer the lower charges for services in order to compete with massive advertisement campaign and quality brand name of the large institutions which may attract clients to transfer their accounts there. However, I have decided not to count with them in my competitive analysis since they serve a significantly lower number of clients comparing to Komerční banka. Nevertheless, Komerční banka, Česká spořitelna and Česká obchodní banka even have not managed to achieve the first

five positions. On the other hand it has been mbank, Raiffeisenbank and Fio, družstevní záložna who replaced them on the first three positions, closely followed by Poštovní spořitelna and GE Money. The results show that clients prefer broad range of products and quality to a brand name of a large institution. The direct banking services offered by an institution constitute important part of client's decision-making process; furthermore, these institutions often offer cheaper and more flexible services.<sup>18</sup>

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<sup>18</sup> "Anketa Zlatý měsíc 2009 zná své vítěze-prosadily se nováčci", *Zlatý Měsíc*, <http://www.mesec.cz/tiskove-zpravy/anketa-zlaty-mesec-2009-zna-sve-viteze/>

## **II. ANALYSIS**

## 4 CHARACTERISTICS OF DIRECT BANKING PRODUCTS

Since the direct banking products offered by Komerční banka are core subject of my thesis, I would like to start the analytical part with the detailed characteristic of each individual product. In the following subchapters I will deal with the detailed description of not only these products but also with the description of individual services offered within them. The characteristics will provide a reader with information on a group of clients each product is aimed on as well as information on conditions of using and security. All the information needed for these characteristics was obtained from the internal materials issued by Komerční banka.

### 4.1 Expresní linka

As has been said in the chapter describing the development of direct banking products in Komerční banka, Expresní linka represents the service of Phone banking. It is important to mention that Expresní linka was the first from the family of direct banking products to be launched and still remains the flagship of the direct banking products as all of other products are interconnected with Expresní linka.

Even though all other products have their own telephone numbers to be dialed in the case of a client's need, it is often Expresní linka what clients call in order to have their enquiries answered. However the core function of Expresní linka remains with the dealing with payment orders and providing information related to a client's account.

Expresní linka is primarily aimed on the individuals and small entrepreneurs. An attorney, if there exists one, can also use the services of Expresní linka, however an amendment to a client's contract must be signed. The service can be activated by visiting an account holding branch and signing a contract for Expresní linka - a customer receives an identification number in this stage. Consequently a customer receives a letter providing them with a PIN code for Expresní linka, an activation phone call follows. Consequently a client sets up a password during this first activation phone call. The unique password, a client's identification number and Pin code are needed for all of the next calls. While an identification number serves for identification, a PIN code and password are necessary for authentication and constitute a safety procedure.

Clients are provided with easy and comfortable access to their accounts via phone number 800 111 124. The service is available 24 hours a day and 7 days a week which means that clients are granted the continuous access to their accounts. When accessing Expresní linka

from abroad or if an English speaking telebanking specialist is needed clients are required to dial number 485 264 444.

When calling Expresní linka, first, a phone call is answered by the Interactive Voice Response, hereinafter called IVR. If clients call from a mobile phone set for identification, an identification number is not required and they proceed to following menu directly. The numbers introducing an each individual item of the IVR's menu represents the numbers of a mobile phone keypad:

1. balance on a current account
2. Overview of the last transactions
3. Setting of a payment ( a client is put through to a telebanking specialist)
4. Information on exchange rates
5. Information on other products and services
6. Putting through to a banking specialists

When clients select to be put through, a telebanking specialist is able to provide them with the following services:

- Information on an account balance on all client's accounts
- Overview of all transaction on an account-information on the movements up to last 6 months
- Setting one-time payment orders
- Setting one-time payment order in foreign currency
- Setting, change and cancellation of a standing order
- Setting, change and cancellation of a direct debit
- Setting, change and cancellation of SIPO
- Sending of mini-statement (statement of movements on an account for the last 10, 20 or 30 days which might be sent by fax, email or post)
- Request for a change of a password
- Request for a change of a PIN code
- Request for a setting, change or cancellation of a phone number used for identification
- Request for a setting , change or cancellation of a contact phone number, email address and fax number



- Setting, change or cancellation of notifications (announcement about payment orders which might be sent by fax, email or post)
- Information on exchange rates
- Requests on issuing, change of a PIN and change of a week limit on debit cards
- Request on issuing, change of a PIN and change of a week limit on credit cards
- Cancellation and temporary blockage of Expresní linka
- Reclamation of transactions set through Expresní linka and Moje banka
- Reclamation of a current balance
- Telebanking specialist are obliged to deal with all relevant enquires a client comes up with

The services within Expresní linka are performed by two call centers, Liberec and Zlín. The former one, opened in 1998, has been operating for almost eleven years while the latter one was opened in February 2008. The telebanking specialists provide the services on three levels. The lowest level provides common financial services including setting payment orders, maintaining contact information and providing basic information on last movements on accounts and on a current balance whilst the second level of telebanking specialists deal with more complicated enquires related to credit and debit cards or cancellation and blockage. Consequently, the third level specialists which are internally called product specialists deal with reclamations, clients' interest in products and all other enquires which can not be solved out within lower levels.

The telebanking specialists are obliged to follow a strict script when dealing with a client. This script includes certain order of a phone call as well as phrases and moments which required a client's surname to be said. An each phone call is required to be start with a telebanking specialist either asking for an identification number or addressing a client with a surname when a mobile phone for identification is being used. Regarding the latter case, the name and surname of a client comes directly on the screen together with a table requiring the random symbols from a client's PIN and password to be filled in. The rest of a phone call differs according to a type of a client's enquiry.

All phone calls are recorded as they might be needed in the case of a reclamation of a transaction as well as for a need of the bank- the certain standard of a dealing with a client is required from the telebanking specialists in order to achieve high-quality services. The records are needed to check not only the professional manners of telebanking specialists but also the quality and accuracy of information provided to a client.

When talking about the main advantages of Expresní linka for a client I find as the most important advantage to be mention the freedom to operate an account from any place in the world where a phone is available which gives a considerable independence to a client comparing to a regular visiting of a branch. Secondly, the charges for setting orders and for all other operations via Expresní linka are lower than those set at a branch enabling clients to set higher numbers of payment orders with lower costs which is appreciated particularly by small business clients setting huge amount of payment orders regularly and seeking cost-cutting measures. The overview of charges for services will be discussed in the following part of my thesis. Thirdly, the small business clients prefer the usage of Expresní linka to another products of direct banking as the services are provided by highly-professional telebanking specialists and therefore the enquires are cleared more quickly than if set by employees or owners themselves which enables them to deal with their proper tasks instead of setting up payments. Consequently the service helps companies to fit into a good time-management. Last but not least, a client is provided with up-to-date information on all movements on an account on 24/7 basis without restrictions on opening hours.

Coming to a question of disadvantages, the main one is seen in the queuing times which may exceed 5 minutes during busy hours of a working day (usually between 9 am and 4 pm). Secondly, the charges are higher than those charged for services through Moje banka, therefore, clients included in the retail banking segment may incline towards the services of Moje banka as they do not seek a time management as accurate as the clients falling to the small business segment. Therefore, the service does not represent the cheapest way how to manage the finance operations for this segment of clients. Thirdly, considerable amount of clients try to avoid a contact with the bank as often as possible since they do not appreciate being offered another products of bank, therefore, this contact with a telebanking specialists does not meet their needs since they prefer to choose the products on their own. Main advantage of Expresní linka lies in the direct contact with a client which enables bank to the clients directly with the products which exactly fit their needs. Clients often contact Expresní linka with various enquires ranging from problems with debit cards to questions on loans and a professional telebanking specialist must be able to conclude such a phone call successfully with a contract. Clients are also offered the products during the phone calls in which they aim only to set up the payment orders. Secondly, the considerable part of transactions is transferred on the call centers which mean savings on

the number of employees in an each individual branch as well as savings on bank's premises needed for the branches. For the bank, Expresní linka represents services enabling direct and regular contact with a client with savings at the branches.

Speaking in terms of disadvantages, Expresní linka requires a high number of telebanking specialists to be trained and well-prepared for the services provided. As in all other call centers also the call centers of Komerční banka struggle with the high level of fluctuation among its employees which considerably rises the costs. To avoid high administrative costs coming with the high fluctuation of full-time staff the call centers regularly hire the high numbers of employees on an agreement on working activity

## **4.2 The products of direct banking based on Expresní linka**

### **4.2.1 Expresní linka plus**

The product enables the clients using Expresní linka to access information on their accounts via internet application Expresní linka plus. Comparing to Moje banka, Expresní linka provides a client only with passive information without possibility to set payment orders. The safety procedure resembles that for access to Expresní linka as the same unique PIN and password set by a client is required. Similarly to Expresní linka, the product is designed for individuals and small entrepreneurs. An activation of Expresní linka plus can be done through a phone with a telebanking specialist which means that a client is not required to visit a branch. Therefore, having the contact on Expresní linka signed is the vital condition for the activation of Expresní linka plus.

In the case of either problems with Expresní linka plus application or any enquiry related to Expresní linka plus, a client can contact both 800 111 124 and 800 152 152 (helpdesk phone number for both Expresní linka plus and Moje banka) In the latter case, when clients contact the phone number of Expresní linka, they are put through to an available helpdesk specialist.

Services accessible through Expresní linka plus:

- Balance on a current account
- Downloading of electronic statements
- Movements on an account
- Information on available loan limit without a proof of income
- Information on templates for setting of payment orders u

- Information on active direct debits
- Information on card transactions
- Setting, change or cancellation of notifications (announcement about movements on an account which might be sent by fax, email or post)
- An individual accounts might be named by a client in order to handle account more comfortably

Main advantage of the product for clients might be seen in 24/7 access via internet providing them with information on transactions on their account in written form in which is easier to orientate than in a continuous speech of a telebanking specialist. Clients are enabled to download statements without contacting the bank when and where needed. The application provides comfortable overview of an account as a whole.

However the core disadvantage is a passive character of an internet application as all the information with the exception of downloading the statements might be access through *Expresní linka* itself. Therefore, the product does not bring many advantages to both individuals and small entrepreneurs.

The usage of the products brings another savings to the bank as less clients call the call centers since the information required might be access through *Expresní linka plus*. Secondly, the considerable savings are brought by the possibility of downloading the statements directly from the application as the clients using requiring the electronic statements are offered not to receive traditional statements sent by post.

The main disadvantage or more likely threat lies in loosing the contact with clients as they do not need to contact the bank as often as when using only *Expresní linka*. Though, the product does not enable clients to set payment orders and they are still forced to contact the bank when need to set one, there exist a considerable number of clients, especially individuals, who use mainly standing orders and thus contact bank only exceptionally. Therefore, *Expresní linka plus* makes selling other products to such a type of clients more complicated.

#### **4.2.2 Mobilní banka**

Aimed on individuals and small entrepreneurs, the second service requiring the contract on *Expresní linka*, enables clients to operate their account via a keyboard and a display of their mobile phones. Similarly to *Expresní linka*, clients are provided with 24/7 access to their accounts communicating online with the bank's server using JAVA technology. To activate

Mobilní banka a client is required to have not only Expresní linka activated but also must be in possession of a mobile phone fulfilling the technical conditions (the full list of acceptable mobile phones is attached-appendix PI) and is required to activate data services by mobile operator. Mobilní banka can be set only on one mobile phone for each client. The same security data as used for Expresní linka (PIN and password) are required to access the services.

Services provided within Mobilní banka:

- Current balance on an account
- The last 15 movements on an account
- Setting of the payment orders
- Setting, change and cancellation of templates for setting of payment orders
- Setting, change and cancellation of notification sent by short messages, email or fax

Comparing to the Expresní linka plus, Mobilní banka provides a client with the selection of an active services rather than mere providing of information. Therefore, the product enables a client to set their payment orders without an obligation to contact a bank and communicate with a telebanking specialists. The payment orders are cleared online thanks to JAVA technology used for communication between a mobile phone and the bank's server.

Main disadvantage lies in rather limited number of mobile phones which can be used for communication with bank as well as problem of often errors in communication between a mobile phone and the bank's server. Therefore the clients must contact the helpdesk specialist quite often. Secondly, the clients are enabled to set only one-time payment orders, thus, Expresní linka must be contacted for any setting, changes or cancellation of both standing orders and direct debits.

Similarly to Expresní linka plus also Mobilní banka brings considerable savings for the bank as the clients set payment orders themselves which lower the costs on running call centers.

Nevertheless, the activation of product again enlarges the distance between the bank and client which may lead into the lower sales of other financial products.

### **4.3 Moje banka**

The second most used product of direct banking enables clients to manage their financial affairs via the Internet without a need to visit a branch. Therefore, the product represents

the service of Internet banking. The financial transactions can be made from any computer worldwide connected to the Internet on 24/7 basis. The product is design for individuals, small entrepreneurs as well as legal entities. Moje banka can be managed by either an owner of an account/ a member of a statutory body or by an attorney authorized for administration of an account. The security of transactions is ensured by the electronic signature standard PKI (Public Key Infrastructure). Each active transaction is signed by a unique electronic signature and confirmed by a sending of a unique confirmation code on a client's registered mobile phone. Furthermore, all the communication between a client and the bank's server is coded by SSL (Secure Socket Layer) which is the technology for a safe data transmission preventing an abuse by an unauthorized person. To obtain the access to the services of Moje banka, a client is required to sign a contract at a branch. A unique certificate for accessing the application of Moje banka is generated on the conclusion of a contract. Consequently, the installation of an electronic certificate on a client's computer is required. When a client wish to access Moje banka from any other computer, the electronic certificate might be transferred on a memory stick or any other adequate medium available. When installing the electronic certificate, a client is asked to give a password which is asked for during the each individual access to the Moje banka application. Moje banka is accessed through webpage [www.mojebanka.cz](http://www.mojebanka.cz).

The product is available in both the Czech and the English version according the need of a client. In the case of any trouble, a client is advised to contact the helpdesk specialists on the phone number 800 152 152. However, if Expresní linka is contacted, a customer is put through to a helpdesk specialist without difficulties.

The services available within Moje banka:

- Review of client's accounts
- Current balance
- Movements on an account
- Overview of today's movements
- Setting of payment orders
- Setting, changing and cancellation of standing orders
- Setting, changing and cancellation of direct debits and SIPO
- Downloading of electronic statements in PDF
- Possibility to name accounts to make handling with them more comfortable

- Information on day limits remaining for each individual account
- Information on exchange rates and stock
- Information on other financial products offered by the bank with the possibility to contact a client's relationship manager directly via the Moje banka application

The main advantage of the product for a client lies in the possibility to manage an account comfortably and easily without need to communicate with the bank. Secondly, the product brings a considerable savings on both account maintenance charges and lower charges for financial transactions set through Moje banka. The product is often offered in package with Expresní linka, the charge for maintenance of Expresní linka is 75 % lower in this case.

The clients perceive the obligation to install an electronic certificate as a disadvantage of the product, though, theoretically, the existence of an electronic certificate is said to bring the higher level of security.

Talking about electronic statements, self-setting of the transactions, similarly as all other products of direct banking also Moje banka brings the savings on costs for the bank in the way described above.

Comparing to the other products described above, Moje banka bears the lower risk of enlarging the distance between the bank and a client as many products are offered directly in the internet application, however, the risk still remains.

#### **4.4 Profi banka and Přímý kanál**

Profi banka and Přímý kanál are services primarily aimed on corporate segment. Both products bear the features making the communication between the corporate sector and the bank easier and more comfortable.

##### **4.4.1 Profi banka**

The product of PC banking enables companies to handle their accounts without the need of a permanent internet connection with the bank. The payment orders might be prepared in advance and sent to the bank as a multiple order. Profi banka can be accessed from any computer where the product has been installed and an internet connection is available, whereas, the internet connection is required only in the moment when a multiple payment is sent to the bank. The product is available in the both the Czech and the English language.

Profi banka is aimed at medium-sized and large companies setting a large number of payment orders. Therefore, the product is designed for entrepreneurs as well as legal entities. Profi banka can be accessed by both the owner of an account and an attorney authorized to use an account.

As the product is aimed on corporations there exist three types of Profi banka users, global users, authorized person and local users, each of them entering application using their own password.

Global users access an account at the level of the bank. Having a certificate issued by the bank, they are authorized to perform active operations on an account up to the limited amount as well as obtain information on an account.

Secondly, an authorized person is normally either an owner of an account or a member of a statutory body in possession of a certificate.

- Global users and authorized persons may:
- Set, change and cancel the access for local users
- Set and change the daily limits for local users

Thirdly, local users are not issued a certificate and they are not entitled to set payment orders without a global user's approval as well ask the bank for the information on an account. Their rights are set by global users directly in the Profi banka application.

The security of transaction is ensured by an electronic signature standard (PKI) and by the technology used for the secure data transmission (SSL) using a unique electronic signature. Therefore, the security is carried out by the same means as the security of transaction within Moje banka.

The services accessible within Profi banka:

*On-line services*

- Authorization of payments
- List of payments with the forward maturity ( up to 364 days)
- Modification of the local users' daily limits
- Naming of accounts

*Off-line services*

- Setting and modification of payments for their later sending
- Movements on an account
- Current available balance



- Daily statements

Profi banka carries mainly financial advantage as the charges for the maintenance of an account as well as for individual transactions are lower. Secondly, the large amount of payment might be prepared in advance and sent when needed as one multiple payment without a need to be permanently connected to the Internet.

As the clients are larger companies they are not bothered with the need to install certificate as an account is accessed mainly during the working hours. Therefore, the product is not specified by any considerable disadvantage for a client.

The advantages and disadvantages for the bank resemble those of Moje banka described in chapter 4.3. Moje banka.

#### **4.4.2 Přímý kanál**

The product extends the services offered within Moje banka and Expresní linka as its specially designed for those who need to send an enormously large number of payments a month. Therefore, the product is designed mainly for large companies sending more than 3,500 payments a month. Orders are sent directly from an accounting system of a company to the bank on the basis of an automatic communication. To obtain the product a client must be in possession of either Moje banka or Profi banka. To access the services an application must be installed by downloading either from the Komerční banka website or from the installation Profi banka CD.

The services accessible within Přímý kanál:

- Multiply processing of payment orders
- Multiple sending of payment orders with forward maturity (up to 364 days)
- Both an automatic and a manual connection with the client's accounting system
- Monitoring of daily limits for transactions

Main advantage for a corporate segment lies in the direct interconnection with a client's accounting system enabling the lower number of application run on an employee's computer and therefore lower costs on a training of an employee as this can be trained only for one application.

Main disadvantage is tightly connected with an advantage as the person not being trained for an accounting application is not able to operate an account via Přímý kanál. However, the product is mere extension of Moje banka and Profi banka and these persons may operate an account via this product.

Similarly to Profi banka, major advantages and disadvantages are those described in chapter 4.3 Moje banka as the product only extends the services offered within this.

## 5 COMPETITIVE ANALYSIS

The Czech banking environment is becoming more and more competitive as financial institutions with either partial or major foreign share enter the market. Therefore, the increasing competitiveness of the environment is mirrored in a quality as well as in a large extend of services offered within the direct banking products as well.

The competitive analysis discussed in this part of my thesis will cover mainly the major direct banking products offered by Komerční banka as the other products are either incomparable to those offered by the competitors or are not included in competitors' portfolios.

Each of the financial institutions operating on the Czech market offers slightly distinct direct banking products when talking in terms of both the services provided to a client and the level of security of financial transactions conducted. Above all, this distinction rises up from the character of products as they are based on continuously changing modern technologies and the final version of each individual direct banking product depends on both a financial institution and a company designing the technical solution for a product. However, the major products and their features remain comparable.

The competitive analysis will include all the major competitors. Moreover, the products analyzed are those aimed on individuals as the services provided to entrepreneurs are not the core subject of the thesis. All data listed in both tables below are based on a research made on websites of the following financial institutions. The exact websites are listed in the bibliographical part of my thesis.

The list of financial institutions chosen to be analyzed:

- Česká spořitelna a.s., hereinafter called ČS
- Československá obchodní banka a.s., hereinafter called ČSOB
- GE money bank, a.s. hereinafter called GE
- Poštovní spořitelna a.s., hereinafter called PS

### 5.1 The competitive analysis of Phone banking products

The following table shows the information on individual products of Phone banking offered by the major competitors of Komerční banka. The table contents all data necessary to be considered when analyzing such a product as well as its strengths and weaknesses important for a client.

bank/ product trade name	KB/ Expresni linka	ČS/Servis 24	ČSOB/CSOB Linka 24	GE/telefon banka	PS/Max Phone PS
initial charge in CZK	0	0	0	0	0
maintenance fee*	39	100	40	39	0
Free calling	yes	no	yes	no	no
Special services **	Described in chapter 4.1	O2 and T- mobile top up	no	no	All the mobile phone operators top up
Charge for one-time payment order in CZK	6	2/3,5 IVR/telebanki ng specialist	9	3	0

\*as charged for the holders of current accounts

\*\* above those offered by Komerční banka

Comparing to the other institutions the main competitive advantage of Expresní linka can be seen in no charge for a phone call as a phone call might last for a relatively great deal of time when calling during the peak periods of a day and therefore queuing on a line. The only other institution offering free calling, ČSOB, charges a client with 9CZK for an one-time payment order, while Komerční banka asks for 6 CZK, therefore, its services might be eventually more expensive for a client setting a large amount of one-time payment orders, though, the maintenance fee paid monthly is almost the same.

Though, the services of PS might appeared to be the cheapest as there is neither monthly paid maintenance fee nor a charge for one-time payment order, a client is charged for

services such as current balance enquiry or transaction history enquiry which are available for all clients of Expresní linka for free. Furthermore, clients are charged for a phone call according to a contract with their operator which together with charges for other enquires may lead to a rapid increase in costs for a client.

According to information I have collected in both the websites of the financial institutions discussed and on their branches. Expresní linka provides a client with complex range of services as well as a comfortable access, though the charges may appear as belonging into higher on the market, no charge for phone calls eventually compensates higher charges for payment orders setting. Moreover, clients using Expresní linka are enabled to activate the services of Mobilní banka by a phone call, therefore those client in a need of a continues access to their account without a contact with a telebanking specialists may still use the services of Expresní linka. Furthermore, those clients wishing to have online access to information on their accounts may pick the offer of Expresní linka plus.

Comparing to other products analyzed, Expresní linka seems to be the only option for non-Czech speaking clients as it is the only services offering the phone number served exclusively by the English speaking telebanking specialists which allows Komerční banka to access the segment of foreign clients living and working in the Czech Republic and preferring Phone banking over the other products.

On the other hand, Expresní linka does not offer the possibility of a mobile phone top up throughout its services.

## 5.2 The competitive analysis of Internet banking products

bank/ product trade name	KB/ Moje banka	CS/Servis 24	CSOB/CSO B Internetban king 24	GE/Interne tbanka	PS/Max Internetb anking
initial charge in CZK	0	0	0	0	0
maintenance fee* CZK	39	100	0	39	0
Type of security	PKI, password, authorization SMS	ID number, password, authorization SMS(optional) , authentication calculator(opti onal), client certificate(opti onal)	ID number, PIN, SMS key (optional), electronic certificate(opt ional) authorization sms (optional) electronic signature(opti onal) no installation required	ID number, password, SMS key(optional ) electronic certificate(o ptional- installation required)	ID number, PIN, authorizat ion sms

<b>Special services **</b>	Described in chapter 4.3	receiving of e-invoices	no	online saving accounts opening	no
<b>Charge for one-time payment order in CZK</b>	4	2	3	4	0

\*\*above those offered by Komerční banka

Speaking in terms of costs of services for a customer, Moje banka appears to be one of the most expensive options together with the products by ČS and GE as the other financial institutions analyzed do not charge a client with any maintenance fee. Though to set a one-time payment order in ČS is half as cheaper as in Komerční banka (2CZK/4CZK), the high maintenance fee (100CZK) comparing to that charged by Komerční banka (39CZK) makes this product less attractive for an average client who does not set a large amount of payment orders regularly.

However, though Moje banka is not the most expensive product of those being analyzed, the costs paid by a client of Komerční banka are considerably higher than those paid by the clients of both ČSOB and PS. These financial institutions do not charge a client with any maintenance fee; furthermore, PS even does not charge a client for a setting of a one-time payment order. Thus, the product of PS stands for the cheapest option how the clients can manage their finance themselves through the Internet banking.

Nevertheless, the most significant feature which must be analyzed when talking about internet banking remains with the security of transaction, thus, a system which an institution uses when a client accesses an account and alternatively other systems of an authentication during individual transactions. Though Komerční banka offers one of the highest levels of security on the market, the product might be rather limitary for a certain group of clients since it does not offer any alternative for traveling clients. The PKI system

of electronic certificates requires clients to carry a certificate on either USB key or CD in order to access Moje banka from other computers. Moreover, the product requires the JAVA technology to be installed. Therefore, a client may experience difficulties when accessing an account from libraries or internet cafés either in the Czech Republic or abroad as many of them do not allow a computer user to install any application. All the other institutions enable clients either to choose from more alternatives of security system or they offer online access from any computer connected to internet without a need of any installation processes.

Considering the range of services offered by Komerční banka, Moje banka does not offer any significant extras comparing to the products of the other financial institutions, therefore the products seem to be rather similar to a high extent.

Speaking about electronic invoices and their direct payment from the application as ČS offers, Moje banka does not offer such a service as it has been designed mainly for individuals and all the services used by entrepreneurs are included in Profi banka and Přímý kanál. Therefore, Komerční banka is one of the few institutions on the Czech market which offer a wide-range of products specially designed and customized for individual segments of customers. The only of the financial institutions analyzed offering a customized product directed on entrepreneurs is ČSOB. The product called ČSOB Business Banking 24 offers the range of services comparable to those of Přímý kanál including the direct interconnection with accounting systems. Moreover, no other financial institution has a product resembling Profi banka with its online and offline functions included in its product portfolio.



## 6 IMPROVEMENT SUGGESTIONS

As all other products and services also direct banking products have a number of weaknesses which might be improved. Nevertheless, one core question must be answered by each entrepreneur when planning the improvement of either a product as a whole or a service offered within this product: Does an improvement bring a sufficient profit having a respect to costs necessary for an implementation of changes? Talking about profit, we must focus on not only financial profit but also on customer loyalty which brings a profit mainly in a long-time scale. Therefore, all my suggestions will take account of this core fact.

When analyzing the products of Komerční banka, I went through a number of weaknesses, however, I also found out that internet banking products of Komerční banka are highly differentiate comparing to only one product offered by most of other institution. Nevertheless, the range of services offered within a flagship product of internet banking- Moje banka, closely resemble those offered by other institutions.

This part of my thesis is aimed to suggest a possible solution how to get rid of these weaknesses in order to offer even more competitive products.

I have decided to go through each group of main direct banking product separately in order to achieve a clear overview of all improvements suggested.

### 6.1 Expresní linka

As I have already stated above, Expresní linka provides a customer with a complex range of highly-professional services and as the competitive analysis proved it appears to be one of the most sophisticated products on the Czech market. However, I came across two core areas which long for improvement.

Firstly, the bank built its image on the pro-client approach, which means that the bank aims to accommodate a client and to make him as comfortable using bank's services and products as possible. Thus, when telebanking specialists answer a phone call, clients are addressed by their surname. However, there exists no fixed pattern for a relationship manager when putting a client's name and surname into the bank's informational system. Consequently, the order-given name-surname or surname-given name-appears randomly on a screen of a telebanking specialist when answering a phone call according to the way a relationship manager put it into the system. As a given name of a considerable number of clients appears to be easily mistaken for their surname, e.g. Martin Tomáš, a telebanking specialist often stands in front of a dilemma which name to choose to address a client

correctly in order to act in accordance with the pro-client approach and accommodate a client in the beginning of a phone call. Whereas the correct addressing leaves a client with a good impression, obvious mistake, though apologized for, at the beginning of a phone call may most likely lead to annoyance. Therefore, I would strongly recommend to divide this item in a form into two separate items, so that, a position of surname and given name on a telebanking specialist's screen would be clearly defined and a smooth flow of a phone call ensured. This action only require an IT department to make a change in the informational system; therefore, the costs on the change are rather minimal while it brings the improvement in an impression the bank leaves a client with and helps a telebanking specialist to act in accordance with the pro-client approach.

Secondly, the both call centers struggle with the problem of staff fluctuation as the work in a call centre is highly demanding and average length for an employee to stay with a call centre is maximally two years. Therefore, team leaders, managers and even head should focus on both the support of employees and their motivation to minimize the costs coming along with the high level of fluctuation. The team leaders in both call centers should organize meetings more often than once a week in order not only to share both the experience and successes achieved but also create friendly environment to reduce the stress on a workplace.

Though the salary in the call centers does not belong into the lowest on the labour market, it can not be counted between the highest salaries. Therefore, the employees should be motivated by not only occasional benefits like retail vouchers or retail discounts but the call centers should implement the cafeteria system which enable an employee to choose activities or products and services according their own taste up to a certain amount of money. Though an implementation of such a system requires higher administrative costs, eventually the amount of money paid by the bank for these benefits remains the same providing an employee with a freedom of his or her very own choice. Thus, an employee appreciates these benefits more and motivated employees represent the lower level of fluctuation.

## **6.2 Moje banka and other Internet banking products**

Though Moje banka provides a client with a wide range of services and offers user-friendly interface its services count between those more expansive on the Czech market. However,

this can not be suggested as the area for improvement as the charges for services are appropriate taking in consideration the structure of the clients of Komerční banka who choose the bank for its strong brand name and background counting with the higher costs on both maintenance of their accounts and charges for individual operations.

Secondly, the solution for the core weakness of the product revealed in the competitive analysis- the complicated access to an account due to the usage of an electronic certificate and JAVA technology or more precisely not offering an alternative access for those on travels- seems to be rather complicated.

The change of technology, application and technical solution would bring considerably high cost without major impact on a number of clients both setting their accounts in Komerční banka and using Internet banking as the majority of clients already having account in Komerční banka would not switch the bank on the basis of an access to Internet banking services and this access is also not the main criteria when a potential client decides between banks. However, it might happen that the bank will be forced to offer an alternative solution in a long-time scale with the further development of informational technologies to keep up with the competition. Therefore, the bank is strongly advised to count with the future costs on the design of alternative and more flexible access to Moje banka providing a client with more freedom when not having access throughout their own computer or laptop.

Speaking about the products designed for businesses, Profi banka offers complex services and have practically no competition on the market, therefore no further suggestions and improvements are needed. Similarly to Profi banka also Přímý kanál does not require any further improvements so far as the product is offered exclusively by Komerční banka and ČSOB. Moreover Komerční banka offers wider range of services within this specific product.

## CONCLUSION

The direct banking services appear to be widely used by both the retail segment and the corporate segment of clients lowering costs on using financial services and time needed for managing the financial affairs. The Czech financial environment appears to be highly sophisticated, offering the sufficient types of direct banking services to choose from.

However, my bachelor thesis reveals an unexpected uniformity in services offered by the Czech leading financial institutions when speaking in terms of a number of clients. The products offered closely resemble each other and therefore a choice made by a client becomes highly determined by fees and charges paid in a particular institution.

The products offered by Komerční banka appear to belong between the most diversified and sophisticated products on the Czech financial market providing a client with highly customized services focused on a specific segment. Though the fees and charges paid for the products seem to be one of the highest, the deep analysis proves that final amount of money paid is often the same or lower as for the products by competitors generally perceived as offering cheaper services.

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## APPENDICES

P I      The list of compatible mobile phones

## **APPENDIX P I: THE LIST OF COMPATIBLE MOBILE PHONES**

<b>HP</b> 6915
<b>NOKIA</b> 2650 3650 6131 6260 6680 7260 E61 2652 5140 6170 6600 6681 7270 N70 3100 5200 6230 6610 6820 7610 N73 3120 6020 6230i 6610i 7200 9300 N95 3220 6060 6233 6630 7210 9300i 3230 6085 6234 6650 7250 9500 3300 6101 6300 6670 7250i E50
<b>QTEK</b> 8010 8310
<b>SAMSUNG</b> E530 E720 P510 X460 X480 X660
<b>SIEMENS</b> C65 S65 CT65 SL65 CX65 CT70 CX70 C75 M65
<b>SONY ERICSSON</b> K300i P900 Z600 K500i P910i K600i P990i K610i T610 K700i T630 K750i W700i P800 Z520i
<b>MOTOROLA</b> E398 RazrV3 V300 V360 V500 V620