Chapter II
Delivery of Retail Banking Services

INTRODUCTION

The purpose of this chapter is to outline the online revolution which occurred in the banking sector, mainly in the developed world. It will briefly cover the history of banking and how it evolved through the centuries into a service which touches many aspects of our life on a daily basis.

Financial services is one of the largest and most important industries in developed economies. Within this, banking is the largest sector. There are several types of banks, such as retail banks, commercial banks, investment banks and credit unions. Increasingly other types of businesses such as supermarkets are also offering financial services.

Banks exist in a wide range of sizes and differ in the type and number of services they provide. Commercial banks dominate this industry, offering a full range of services for individuals and businesses, from safeguarding money and valuables to the provision of loans, credit, and bill payment services. This book largely covers the issues related to retail commercial banks which offer services such as current accounts, saving products and various types of loans to individuals as well as businesses. Issues related to private banking or investment banking are similar in many ways but are outside the scope of this book.
HISTORY OF RETAIL BANKING

Basic banking services such as deposits for safe keeping, saving, or borrowing for personal or business use is as old as human civilisation. Organised banking services started in 15th and 16 century Europe, when banks began opening branches in commercial areas of large cities. By the last quarter of the 19th century, banks were consolidating their branch networks so that they could operate in a more integrated manner (Consoli, 2003). Mergers and acquisitions allowed banks to grow quickly but, in the absence initially of information and communication technologies, their services remained largely local.

The policy of opening new branches continued throughout the twentieth century as a means of business expansion, but services were limited to the provision of routine operations such as deposits, withdrawals and basic loan services. To cope with the increasing volume of work, and to achieve consistency across branch networks, banks started to standardise their record keeping and accounting practices. This also helped them to effectively connect branches. Standard record keeping also resulted in the appearance of new professions such as bank clerks. The arrival of the typewriter in the late nineteenth century helped to standardise internal/external communications, and other tools such as the telegraph made communications between branches and headquarters a daily routine.

After the end of the Second World War, early forms of computers began to find their way into the banking industry, initially to automate routine data processing operations. This later gave way to more organized data processing to make data more accurate and easier to access. More advance database tools enabled the automation of clearing systems and retail money transfer which cleared the way for banks to widen their reach and improve and increase the delivery of financial services. At this stage, these technological developments were often confined to the banks headquarters, while branches continued to operate paper based systems.

In the mid 1960s IBM developed a magnetic strip on which data could be stored to be used through plastic cards for electronic reading (Consoli, 2003). Banks were again one of the first users of this technology, beginning with the development of cash machines. Later these became known as Automated Teller Machines (ATMs). ATMs not only provided cash but also showed balances, mini statements and requests for banking stationary such as cheque books.

During the 1980s the automation of data processing spread rapidly to branches, and most internal operations were fully automated, making considerable savings for banks. Their benefits to customers however remained very limited. In the late 80s and early 90s the use of computers started spreading to all areas of banking, and intra-bank networks further enhanced and enabled standardization of products and service delivery. This meant that technology itself was ceasing to be a source of
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