

A Closer Look on Online Banking Customers

ONLINE BANKING IS WIDE SPREAD AMONG GERMAN BANKING CUSTOMERS. BUT WHAT REALLY MAKES THEM TICK? CLUSTER 3 GETS INTO DETAILS, USING DATA FROM A NATION-WIDE SURVEY OF ABOUT 20.000 RETAIL BANKING CUSTOMERS.

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Introduction

The introduction of online banking was one of the major actions taken to cut costs in the bank-customer-interaction within the last twenty years and the trend to migrate customers is still unbroken (Jung 2005).

Whereas technical challenges and solutions had been the topic of many authors in existing literature, research now focuses on the profitability of customers using the different channels for sales and transactions (e. g. Gensler, Böhm, Leeflang, and Skiera 2006; Böhm, Gensler 2006). But a sound knowledge of cost and profitability of the channels is not enough for success in retail banking. The development of a customer-centric strategy, taken all relevant information into account, is urgently necessary. Naturally, a sound understanding of the customer is part of it.

In the following, we would like to support the understanding of online banking customers by having a closer look on demographics, attitudes and financial products usage.

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The study

The survey is based on 20.095 interviews with German-speaking interviewees from the age of 14 belonging to private households in Germany (Skiera 2006). Addresses were selected at random to create a representative picture. The survey was organized by Burda Advertising Center and carried out by market research companies IFAK, Marplan, MMA and TNS Infratest in 2005.

Demographics

Not surprisingly, online-banking users seem to be different from the average banking customer. Online-banking users tend to be younger, with an average age of 37 years compared to 47 years. Moreover, online-banking customers are better trained than the average. Degrees of secondary education are most common with 75% of the German population above 14 years. 60% of online-banking customers have a secondary degree and 31% have a degree comparable to A-levels, whereas only 17% of the average population has a degree comparable to A-levels.

Reflecting the level of education, the occupational status show a shift to white collar jobs with less craftsmen (11% compared to 17%) and a higher share of students (35% compared to 19%). This results in a higher net household income among online banking customers (29% compared to 18%). Online-banking customers therefore seem to be more affluent than the average population.

Online-banking usage is a clear indicator for higher telecommunication usage, since 30% of all online-banking customers are using a flat-rate tariff for their Internet connection. This might be an indication that online-banking customers are used to the Internet and assess the convenience of this channel.

Product interest and usage

It is not only the economic situation but also the intrinsic interest that results in a slightly higher interest in banking products (2.8 instead of 2.5 on a scale from 1 [very low interest] to 6 [very high interest]).

Especially riskier products like mutual funds or stocks are of greater interest for online-banking customers: they score an average of 2.4 instead of the whole population's 1.9. Consequently, this is reflected in the product usage, since 24% of the online-banking customers hold mutual funds, compared to only 15%. It is nearly the same picture for stocks: 11% of the online-banking customers hold them in their securities account, but not even 7% of the average banking customers.

This comes along with the interest in retirement arrangements and derived banking pro-

ducts with a score of 3.3 for the online-banking customers against a score of 2.9.

Online-banking customers are using payment products to a higher extent, among others due to the fact that credit cards are still one of

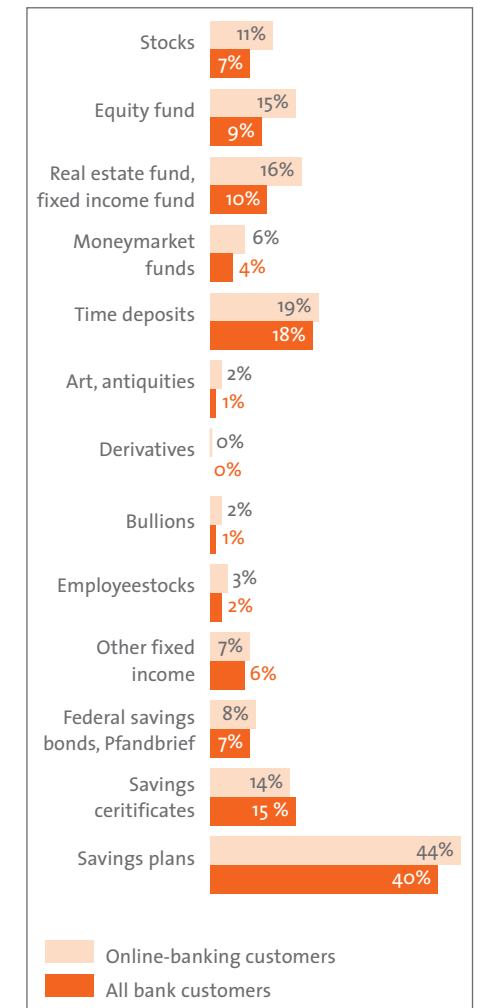


Figure 1: Product usage in comparison

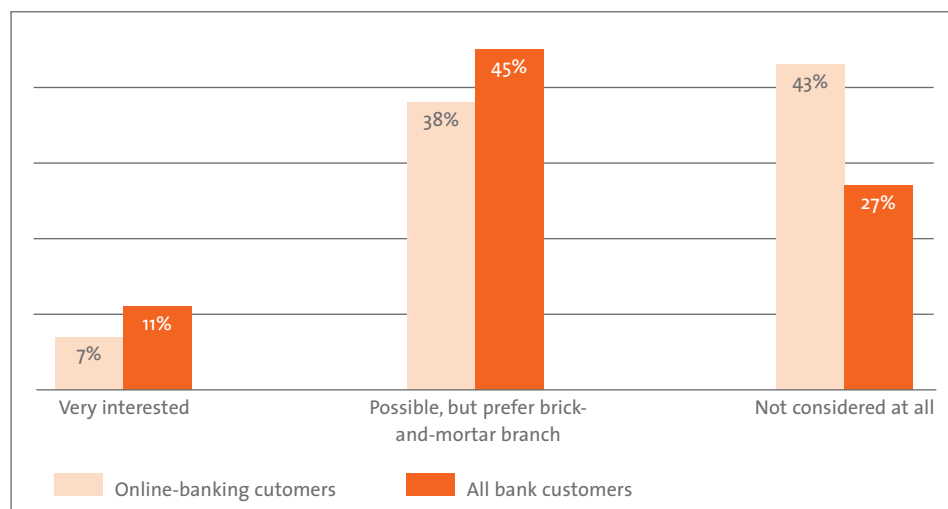


Figure 2: Attitude towards direct banking

the most common methods of payment on the Internet. Therefore, 43% of the online-banking customers have a credit card in contrast to only 31% of the whole population.

Risk aversion

The affinity for risk itself shows similar results: Online-banking customers are more willing to accept certain risks in exchange for higher interest rates. The willingness of respondents using online banking averages to 2.6 compared to 2.3 of the population (on a scale from 1–6). This is supported on the one hand by their willingness to raise a credit, which has an average score of 3.3 for online banking customers in contrast to 2.9. On the other hand, online-banking customers feel to a higher extent that contracting as much insurance as possible will increase their personal risk coverage. These

characteristics have a positive effect on the sales potential for the quantity of products saleable as well as the complexity of products. But in contrast to the assumption that online-banking customers are well-informed, independently-deciding risk-takers, they express a strong interest in personal consultancy from a bank officer, might it be via telephone or in a traditional brick-and-mortar branch.

Direct banking affinity

The affinity for direct banking is also differing: 42% of the respondents are not willing to take direct banks into their considerations, whereas only 27% of the online-banking customers are totally reluctant. All major retail banks offer an online channel for transaction processing as well as product sales to a certain extent. Still, the most advanced channels are often

provided by direct banks, but by far not all direct banking customers are online users as well. A lot still prefers traditional telephone banking or ATMs and service terminals.

Of those, who are using online banking, 11% show a strong interest in direct banks, compared to only 6% of all interviewees.

Bank usage

As a result, and not surprisingly, direct banks are more popular within online-banking customers, but also the larger private retail banks have slightly higher market shares within the online-banking segment. For the cooperative banks there is not a significant difference between online- and offline-banking customers, but especially savings banks (with the largest market share of 56% in general for current accounts) show a much lower market share of only 51% for online-banking customers. This might be caused from a less online-affine customer base or the savings banks failing to migrate their customers to the online channel successfully.

Management implications

For a retail bank, online banking customers are of high interest – their economic situation is well above the average, they have a higher interest in and a higher demand for banking products and they are open to more complex and even riskier products. Most of them are using the online channel regularly and for some of them there is no need for regular personal contacts with the bank's sales personnel.

Banks are challenged to identify those customers and make sure that they are paid attention to and their full sales potential will be tapped.

Especially the savings banks have a significant lower market share within online-banking customers. For them, it is necessary to identify, whether this is a result from self-selection effects, from insufficient marketing or inadequacy of their online banking facilities which might result in a poaching of their customers by direct banks with a more advanced online channel.

Many retail banks may follow a multi channel strategy, but at the end of the day, profitable online banking customers are among the most promising customer segments. Taking care of them and the online sales channels should be given top priority by the management.

References

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