

Research Report

Hot or Not? Usage of Web 2.0 Applications by Retail Banking Customers

THE TERM WEB 2.0, COINED FOR A VARIETY OF RECENT WEB APPLICATIONS, RESOUNDS THROUGHOUT THE LAND AND FIRES ONLINE MARKETERS' IMAGINATION IN MANY INDUSTRIES. WE EXAMINE EMPIRICALLY HOW FAR THOSE APPLICATIONS ARE USED BY RETAIL BANKING CUSTOMERS AND WHICH ROLE THEY PLAY IN THE RETAIL CUSTOMERS' PURCHASE PROCESS.

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Introduction

Promising something new and innovative, the term Web 2.0 arrived in mass media as well as literature, replacing the 'old Internet'. A vast array of (sometimes contradictory) definitions has been published, but there is an emerging consensus that user-driven and interactive applications with a certain degree of social functions, such as online communities, weblogs, and review website, qualify as web 2.0 applications. In contrast, 'traditional' web applications and the 'old Internet', which have arrived in the financial services markets a long time ago, are primarily applicable for passively retrieving and consuming information.

With web 2.0 applications, beyond mere retrieval of product offers, consumers perform more complex steps when using the Internet as part of their financial service purchase process –

facing the financial service providers' need for individual and customer-centric, yet cost-efficient, solutions. In terms of Web 2.0, there might be something in for both sides of the counter.

We examine whether, when and which consumers use typical web 2.0 applications for online buying of financial products. Our results indicate that many web 2.0 applications fulfill information purposes and therefore find primary use in the pre-purchase stage. The online activity and the financial knowledge of the consumers are identified as the main influencing factors on the usage of web 2.0 applications.

Web 2.0 Applications in the Retail Banking Environment

The main characteristic of web 2.0 applications is the possibility to use them interactively, which

means creation of content by the consumer and interaction with other consumers. Thus the consumer is evolving to a prosumer, incorporating both the characteristics of a consumer as well as of a producer simultaneously. We differentiate the web 2.0 applications that we examine in this study into two groups regarding the convenience of the interactive usage: (1) Applications where content creation does not need any programming skills or additional devices beside a personal computer with internet connection are review websites, wikis, online communities, weblogs and virtual sales assistance. (2) Applications where advanced skills are required for content creation are audio-/videopodcasts and widgets.

A wiki is an online encyclopedia, where everyone can add new content or adjust present content. The most popular example of a wiki is Wikipedia.org, where the consumer can even find profound information about financial services. A more specific wiki is the financial glossary of Reuters (glossary.reuters.com) which is constrained to financial topics.

On review websites (such as dooyoo.com) every consumer can post the experiences he made with a specific product or read the experiences other consumers gained to perform a better purchase decision. Whereas on most review websites only products can be evaluated, the German website Whofinance.de offers a platform where the consumer can evaluate his financial consultants. Currently more than 1,000 consultants can be found in the database of Whofinance.de.

We distinguish online communities into those with a general interest and those with a special interest. Tradingbird.com is a special interest community where the consumer can learn how to trade with stocks or how to optimize his trading behavior. The stocks used at Tradingbird.com are connected to real market incidents but they only exist virtually. Another very interesting online community in the financial sector is Wesabe.com, which is a money management tool on the one hand and a community on the other hand. The intention is to form a collective intelligence in money management where all members can benefit from. General interest communities like the social networking sites Xing.com and Facebook.com aim primary to connect people and to enhance their communication. On these platforms sub-communities exist where financial topics are the focus of discussions.

An example for using weblogs in context of financial services which is extremely popular among US-American students is the student loan blog of Wells Fargo. In this case Wells Fargo employees are blogging about financing college and managing debts. The possibility to comment blog entries or contact the authors directly via e-mail provides a feed-back channel for consumer.

Virtual sales assistance covers the communication via chat/instant messenger or voice-over-IP. During complex online transactions the consumer favors to have real time contact to an advisor, other applications cannot provide these features sufficiently.

Audio- and videopodcasts are verbal or visual contents to which the user can subscribe to and consume them on personal computers or mobile devices like portable mp3-/video-players. Scott-trade, an American discount brokerage firm, uses videopodcasts to train its customers in the handling of their online banking and -trading tools. Audiopodcasts with latest market news are provided twice a day on the website of Financial Times Deutschland. Experts' comments on latest market developments via videopodcast are available on the worldwide web presence of the Financial Times.

Widgets are small windows which can be implemented on websites, on the pc desktop (windows vista sidebar) or even in a user's protected personal area of his online community account. Widgets display userselected content from other websites which will be constantly and automatically updated with the origin. The functionality ranges from newsfeeds (for example latest market news of the Wall Street Journal Online) to more complex services like bank account management. With the mymoney widget, which is supported by a variety of financial institutions in the United States, a Facebook user can manage his bank accounts without leaving Facebook.com.

Status Quo: Consumer Usage

We collected data in 2008 from over 1,500 German online users to analyze the current use of web 2.0 applications for online buying of financial products (response rate: 26%). Figure 1 shows the results for each application in the three stages of the buying process of financial

products. In the pre-purchase stage review websites and wikis are the applications that are used most often. About 20% of the respondents gather information via these applications. At least 12% of the consumers cover their information needs by participating in online communities or reading and interacting in weblogs.

Widgets, audio-/video-podcasts and virtual sales assistance do not reach more than 10% of the respondents by now.

The usage of all applications for executing a product purchase is rather small and is rarely above the 5% hurdle. Reasons for that outcome may be a lack of trust in security and privacy of transferred information (during a transaction on these platforms) or the habit to buy financial products via the financial service provider's own website or even by visiting brick-and-mortar branches.

In the post-purchase stage, only review websites are used by more than 10% of the respondents. After buying a financial product the consumer now returns to the review website to post his personal experiences with it. Only few other applications reach more than 5% of usage in this stage.

In summary, we found that in the pre-purchase stage only two applications are used by more than 20% of the respondents, review websites and wikis. There are two potential interpretations for these results: (1) consumers are just not interested in using web 2.0 applications for financial products by now or (2) they cannot use them because of scarce offerings of German

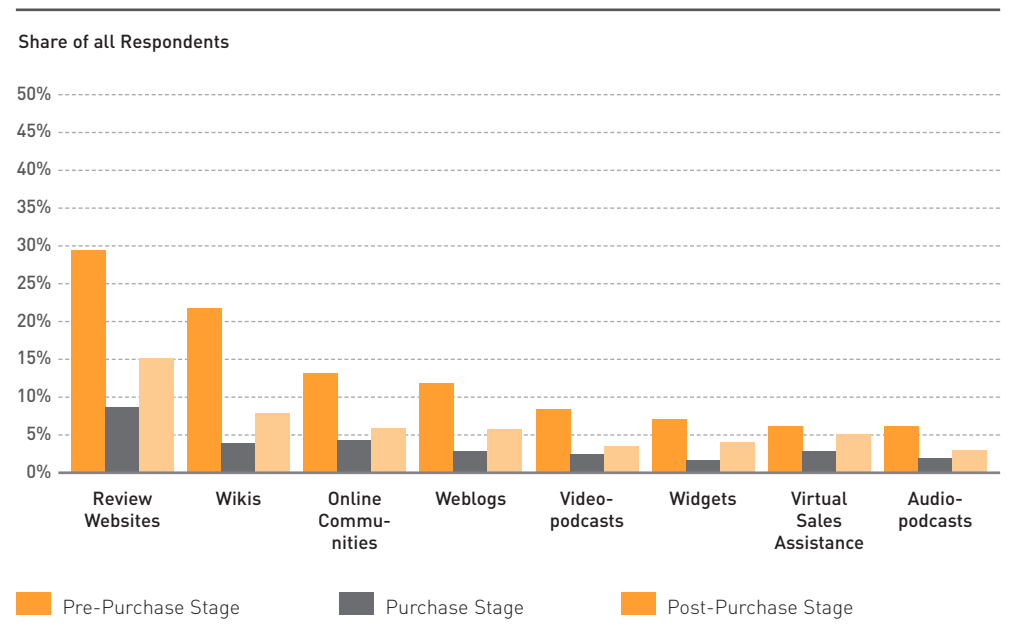


Figure 1: Current Use of Web 2.0 Applications in the Financial Purchase Process

financial service providers. Due to our prior research we consider scarce offerings as the most likely explanation for the low usage.

Characteristics of Financial Web 2.0 Application Users

To characterize the consumers that are using web 2.0 applications for online buying of financial products we analyze which factors influence the consumers' usage behavior in the three purchase process stages.

Regarding the demographics we analyze income, the degree of education, and the age of the consumers. The online behavior consists of activity (the time the consumer spends online),

experience (5-point scale ranging from novice to expert), general online buying behavior (how often the consumer buys products online) and the online buying behavior concerning financial products (has the consumer ever bought a financial product online?). Additionally, we take the financial knowledge into account, which measures in how far a consumer feels familiar with financial topics.

Table 1 displays the results separated in the influence factors, the web 2.0 applications, and the three purchase process stages.

The analysis identifies online activity and financial knowledge as the main factors that influence

the consumers' usage of web 2.0 applications. Regarding these two factors we observe a pattern in table 1. Whereas the financial knowledge primarily influences the usage of the applications on the left hand side (review websites and wikis) the consumers with a distinct online activity are primarily using the applications on the right hand side (especially online communities, weblogs, widgets, and virtual sales assistance).

The online buying behavior in general as well as concerning financial products also shows strong influence especially on the usage of review websites and wikis. Online experience

plays a very limited role.

Among the demographic factors, income and education significantly influence usage. A higher income drives the transactions via review websites and wikis in the purchase stage. In the pre-purchase stage widgets and virtual sales assistance are often chosen by consumers with a higher income. In a few cases the factor education shows a significantly negative impact. A lower education leads to a higher usage of review websites, wikis, weblogs, and virtual sales assistance in the post-purchase stage. An explanation for that rather surprising outcome may be that lower educated consumers

need more customer support which they primarily obtain via these web 2.0 applications.

Conclusion

Web 2.0 retail banking applications can support consumers when they are about to gather information and interact with other consumers who already made experiences with specific financial products.

We learn from our empirical study that German retail banking customers are mostly using such applications in the pre-purchase stage. Only a few established applications like review websites and wikis show distinct usage within the

purchase process. The consumers who currently use the applications are those who feel familiar with financial topics or spend a lot of time online anyway.

Despite the low current usage, we observe examples in foreign countries we described in the beginning of this study where web 2.0 applications are successfully introduced and adopted by the consumer (for example the financial community Wesabe.com), allowing the conclusion, that in the future Web 2.0 will play a considerable role for German online customers in financial services particularly in the pre-purchase stage.

Application		Review Websites			Wikis			Online Communities			Weblogs			Videopodcasts			Widgets			Virtual Sales Assistance			Audiopodcasts		
		P1	P2	P3	P1	P2	P3	P1	P2	P3	P1	P2	P3	P1	P2	P3	P1	P2	P3	P1	P2	P3	P1	P2	P3
Financial Purchase Process Stage																									
Demographic Factors	Income		++			++											++			++					
	Education			--	++		--					-										-			
	Age		-				+		-				+				+								
Online Behavior Factors	Activity			+			++	++	++	++	++	++	++	+		++		++	++	++	++	++	++		++
	Experience			+																-					
	General Buying Behavior	++		++			++															+			
	Financial Buying Behavior	++	++		++				+		+		+												
Financial Knowledge		++	++	++	++	++		++			++		+			+		+							

P1: Pre-Purchase Stage; **P2:** Purchase Stage; **P3:** Post-Purchase Stage

++ = high significant positive influence + = significant positive influence -- = high significant negative influence - = significant negative influence

Table 1: Analysis of Influence Factors on the Usage of Web 2.0 Applications in the Financial Purchase Process