

# Appropriate way for marketing business essay

Business



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## **Introduction**

Internet banking in India is there for more than 15 years now. The widespread use of Internet Banking by customers has shown that customers are comfortable using this channel. Internet banking which started with aim to attain a new banking channel and in response to growing disconnect between banks and Generation Y customers has allowed the banks to regain customers, increase productivity and profitability at lower costs. With Reserve Bank of India taking pioneering initiatives in the field of technology like RTGS/NEFT, Cheque Truncation System, Rupay, etc. and Banks completing the CBS adoption, banks are now in a position to leverage upon technology to serve the customers better and increase their profits. Increasing maturity of banks in adopting technology and a growing number of internet banking users provides path for new opportunities like completely Online-only banks. The study intends to analyze the prospects of this new innovation i. e. Online-only Banks in India. Whenever one talk of a new technological innovation in banking one has to assess the innovation all-round keeping its technical viability, customer's perception about it and operational issues like Banker's perception in mind. Presence of internet banking sites proves the capability of banks to provide efficiently this mode of banking. The study intends to analyze the prospects of Online-only banks in India from rest two i. e. the Customer's perspective and the Banker's perspective.

## **Literature Review**

In India, internet banking started in 1990's with major private sector banks and foreign banks providing this new way of banking to lure customers. Over

the years all nationalized banks have adopted this medium to serve customers as well. In recent years, a wider array of financial products and services has become available over the Internet which has thus become an important distribution channel for a number of banks. An extreme view [3] speculates that the Internet will destroy old models of how bank services are developed and delivered. The widespread availability of Internet banking is expected to affect the mixture of financial services produced by banks, the manner in which banks produce these services and the resulting financial performances of these banks. Further [4] observes that Traditional banking is facing its steepest challenge in over a generation. A new tipping point has been reached, with digital at its fulcrum. In the 'new reality' since the crisis hit, a new value model is required, based upon securing customer relationship primacy (the position of being the preferred and main bank for a customer), through efforts to regain trust and build customer engagement. Digital will play an instrumental role in achieving this strategy. The preference for digital is now pervasive across all customer segments, globally, and especially so for Generation Y. This group, now at the threshold of deciding primary banking relationships, expects a rich digital experience that is both mobile and social, and seamlessly integrates their banking needs with their digital lives. The quality of the digital offering is an important factor in their decision process. Bill Gates has once said 'Banking is necessary but banks are not'. Moving ahead, the next generation banking should aim to provide customer-centric features, giving users an extremely personalised experience while at the same time providing increased intelligence and automation to help banks sell appropriate products and services to their customers. Technologically, next generation banking would

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mean several interconnected applications and flexible orchestration, driven by business needs, and without a long intermediation cycle [5]. With new innovative ways of next generation banking being mulled about, there are thoughts about virtually automating the branches as is expressed by [6] ‘ although the trend towards online banking through internet or mobiles is evident, in a country like India the core of the banking habit is personal banking, meaning visit to the bank branch. Hence a parallel shift towards smarter, more efficient, friendlier and more automated brick-and-mortar experience is the need of the hour. Integrating self-service capabilities into bank branches would be a smart way. Why not make the customers walk virtually into their ‘ home branch’? Why not think of using collaboration technology to have video chats with the valued customers?’

## **International experience**

From international experience this can be said that though Online-only banks are primarily well suited for the young generation, there is an increasing acceptance from older customers over time. Various events like US crisis has further increased the customer base of online banks. As observed in [7] Online-only banks are experiencing a surge in new customers following an unprecedented public backlash against brick-and-mortar banks, particularly Bank of America. The mass exodus is the result of a growing trend of dissatisfaction with traditional banks. As banks try to recover losses from the recession, as well as new losses from legislation, they are changing their fee structure which is alienating some customers. Last year, many banks did away with free checking, and this year Bank of America, along with other large banks including Wells Fargo, have announced that they are either

testing or will implement new fees for debit card users. Online banks are capitalizing on this by offering no fee checking accounts, debit awards, and paying interest on deposits. While customers may enjoy the return to banking without fees, they will be giving up a certain amount of convenience that brick-and-mortar locations provide. Another research from European Union [9] provides insights into the online-only banking operations and their performance in European Union. This provides a base of how should one go ahead in online-only banking in India: Online banking grows – usually, but not always at the expense of branch visits. Bank customers in Europe strongly increased their use of online banking. In France and Italy, they also visited bank branches more often, however. Security concerns are an often voiced impediment to online banking. There is a negative correlation between security concerns and online-banking adoption. Security fears are not based on bad experience. Across Europe, there is no robust correlation between online-banking adoption and actual cases of information abuse or fraudulent payment card use. This suggests that public perception highlights the risks even when bad experiences are missing. Education drives online-banking adoption. Europeans with higher formal education are more likely to use the internet and do financial transactions online. Better educated people are typical early adopters and have fewer reservations against this technology. In addition, they probably feel more confident to protect themselves against security threats. Financial incentives can convince some to go online. But security concerns are the most important hurdle for many customers. Cheaper fees and the possibility to ask questions come second – according to this survey. Many customers wish support from human advisors before they conclude a transaction online. This need increases with the complexity of the

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product. Online banking should not ignore the importance of the human touch. One of the key concerns for the bankers over the acceptance of online banks by customers is that customers are not well equipped in skills like operating internet and doing internet banking, but as observed by [8] User skill level could be a micro driver for the banks to devise their technological strategies. There is a lot of potential for the individuals to improve their Computer /Internet skills; hence there is tremendous opportunity for banks to go online. Although one of the key finding of the study which can act as a good suggestion about how to deal with varying skill set is that Online banking solutions must be designed by considering individual skill levels. Online banking should not be very simple that it does not give value to highly skilled user and also it should not be so complicated so that the users with medium and Low level are unable to get benefits. Also trust and confidence of the user is inversely proportional to the level of complexity of the services. If we need more security then it is obvious to have more check and balance while using it. In doing so the users with Low skills would be in trouble. A key concern area for these Banks and customers of these banks is Security as is also pointed out by [9]. Though security is a big concern, often it is observed that the security problems arise due to lack of awareness among the customers about how to use online banking safely. On this issue [10] observes that Users' share of this responsibility is large and unrealistic given the current Internet environment and available technologies. A pioneering study on the performance of Online-only banks was done by DeYoung which is summarized below. The typical Internet-only bank successfully executes some elements of the business model (e. g., rapid growth, better prices on loans and deposits) but not others (e. g., lower

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overhead expenses). Internet-only banks are poorly suited for “relationship lending,” in which risk is assessed via personal knowledge and direct monitoring of idiosyncratic borrowers (e. g., small business loans or farm loans) and are better suited for “transactions lending” in which borrowers apply for loans on-line, risk is assessed via automated credit scoring models and controlled via large numbers diversification and securitization of relatively homogeneous credits (e. g., mortgage loans, auto loans, and credit card loans). Ironically, anecdotal evidence suggests that “old-fashioned” management practices like cost control, conservative growth, and strategic focus are important keys to success for these “new-fashioned,” high-technology banks. These data suggest that banks that implement each of the primary elements of the Internet-only business model early in their lives (lower overhead, more attractive prices, and faster growth), and manage to keep their expenses down, have been more successful.

Scale versus Experience : One potential source of value in Internet-based business models comes from automation and increased scale: because automated processes typically require large fixed investments but reduce variable costs, e-commerce applications may substantially reduce per-unit costs or increase the optimal size of the firm. Another potential source of value in Internet based business models comes from learning: because e-commerce applications are often (if not typically) introduced by startup firms, simply accumulating experience with a new business model can generate reductions in per-unit costs and increases in per-unit revenues over time. If only the general experience and general scale effects exist in meaningful magnitudes, then the financial performance of Internet-only startups and traditional branching startups improve at similar rates as these banks grow

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and mature. However, if technology-based experience or technology-based scale effects exist in meaningful magnitudes, then the financial performance of new Internet-only banks improve more quickly than new traditional banks. The latter scenario is illustrated in figure 1, where accumulated time (bank age) on the horizontal axis indirectly measures accumulated experience, and return on assets (ROA) on the vertical axis measures bank financial performance. Previous research finds that traditional de novo banks (thin solid line) initially underperform established banks (horizontal solid line) but gradually catch up over time. There is strong evidence of general experience effects available to all startups, but there is little evidence that technology-based learning accelerates the financial performance of Internet-only startups. The way ahead

The study identifies two phenomena that could improve the long-run odds for the Internet-only banking model. First, the evidence is consistent with the existence of technology specific scale effects. As time passes and Internet-only banks grow larger, the resulting scale efficiencies may be large enough to close the remaining profitability gap with branching banks. Second, the evidence is consistent with anecdotal reports that capital regulations have been administered more stringently with respect to Internet-only banks, suppressing the rate of return to investors in these ventures. As time passes and regulators gain experience and become more comfortable with this business model, these extra-normal capital requirements could be relaxed. This is a regulatory question, and it is difficult to know regulatory policy behavior will change until more is known about the risk profiles of Internet-only banks. The share of the market captured by Internet-only banks ultimately depends on the number of retail customers that do not value these choices. Furthermore, the results generated here

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characterize the Internet-only banking model as a high-volume, low-cost strategy for delivering basic banking services, suggesting that Internet-only banks that serve this customer niche will be of relatively large operations.

## **NetBank**

To have a glimpse of what are the key considerations which should be kept in mind for establishing an online-only bank, a detailed study (from [13]) of one of the most successful online-only banks till date, NetBank, was done.

Summarized below is an account of hurdles and issues faced by NetBank on its way to success and strategies adopted by the bank to overcome them.

Organizational mindset: At the very initial stage, NetBank needed to change its structure and outlook from that of a traditional bank to an entrepreneurial firm in banking. What was necessary to build a successful bank and what was required to build a successful Internet start-up were skills not often found in the same people. What NetBank needed seemed to be an oxymoron: a group of conservative risk takers, people who knew how to start a bank and how to keep it afloat. Regulator view: Office of Thrift Supervision (OTS) the regulator of Banks In US observed that Instead of the traditional savings and loan model that allows banks to make a little money every day on every dollar, NetBank's revenue and cash model looked more like that of a software company, with high up-front development expenses recovered over time as software licenses were sold. This view developed because of high amount of investment in technology. However NetBank was able to convince OTS that this bank will not work like a software company, rather the bank had acquired licenses and was using software and technology as a tool to operate business more efficiently. Appropriate way for marketing:

After certain unsuccessful attempt to market its account and services via web browser ads and Print media advertising NetBank decided to advertise only on Banking and financial Web sites, where it believed potential customers would be more likely not only to see the advertisements, but to take the time to click through and visit the NetBank site. This marketing strategy proved to be the most effective one after which the bank saw huge surge in deposits suddenly. New account acquisition: Despite its high-tech online interface, NetBank was processing all new accounts manually through customer service representatives. The stress and strain on customer service employees, who were 50 percent of NetBank's employees, to enter new account information and to handle routine service calls were driving caller wait times as high as 40 minutes. NetBank decided to implement two new initiatives. a. It developed an automated interface for new accounts that connected directly to credit bureaus and other banking information services. b. It made a decision to outsource first-level customer service calls to another company. Those calling with simple questions would no longer tie up NetBank's service lines, leaving them open for more complex calls from customers requiring more proficient customer service representatives.

Growing customer base: For growing customer base and maintaining it NetBank followed following strategy Focus on internet marketing Tell a Friend program which gave current customers money for referring their friends NetBank on MyYahoo: customers given option to view their account information on MyYahoo Rapid expansion of call-center employees Product expansion: starting with elimination of tiered accounts which provided higher interest rates on deposits over a certain threshold, NetBank added 30/7 home equity loans and Visa cards to its offerings. It also created the world's

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first virtual safe deposit box. Loans and advances strategy With a registered growth of 300-400% the bank encountered deposits growth at an unprecedented pace. To lend funds the bank had two options: Either build their own physical infrastructure required for lending purpose or to establish partnership with a mortgage house. The bank chose to partner with First Mortgage Network to give customers quotes on interest rates and to allow them to apply for home loans. Hiring and recruitment issues: growth forced it to continue hiring more customer service and operational employees. Fee income: NetBank was charging very low fee from customers and hence was losing on its fee income. To increase its fee income it started charging for services which were more labor intensive like additional check orders. NetBank this way convince more customers to use its online bill payment system instead of regular checks which was favorable for bank as online bill processing was much cheaper than paper checks. Merger and acquisition: In pursuit to increase its customer base significantly and quickly without a large increase in marketing efforts or service offerings NetBank agreed to buy CompuBank's deposit accounts. CompuBank's fraud prevention technology was weak. Hence it served many suspect accounts. This posed a huge risk of dented profitability for the bank and led to the collapse of the bank itself 2 years later.

### **Banker's perspective**

Banker's perspective for the use of e-banking by the customers can provide a base about what they feel about introduction of this new banking channel. [11] reveals that customers generally use e-Banking services on persuasion of bankers. User-ship is mostly concentrated on professionals, business class

and males belonging to middle age. The bankers are convinced that e-banking helps in improving the relationship between bankers and customers and that it will bring patent improvement in the overall performance of banks.

## **Indian scenario**

The Banks have started offering banking services like checking your account status fund transfer, ordering demand drafts and writing out cheques, via the net. Soon these will form only a small part of the total array of services being offered by them. These Banks have embarked on a number of new initiatives to protect their stronghold and to leverage the net. They are offering value-added services to their customers and at the same time are trying to get into B2C and B2B e-commerce. They are even trying to get their finger into various transactions between the Government on one side and the business and the customer on the other. Banks are trying to become a part of the online value chain. For example, they are trying to tie up with corporates so as to become a part of their supply chain and enable electronic transfer of funds between the different components of the Supply Chain. They are doing this by acting as an intermediary between the corporations and their vendors by enabling online transactions at one place. Some Banks are trying to setup portals for routing payments like Excise Duty and Sales Tax. Not content with that Banks are setting up secure payment gateways to tap the B2C online market. Banks have taken the application process for personal loans, car loans, and mortgage, online. They plan to offer other financial products like Bonds and Mutual Funds through their financial service portal. This strategy is aimed by pre-empting the entry of new startups into this business. Another

bit of the Net strategy, involves providing infrastructure for B2C as well as B2B e-commerce. Banks are setting up secure payment gateways that will allow online retail shops to obtain instant credit card verifications. Once the buyer hits the pay button at a B2C portal, the buyer's credit card details will get encrypted and travel securely to the Visa or MasterCard approval system through the bank's payment gateway. The banks are also setting up their own shopping portals. HDFC has a stake in a portal called easy2buy. com where HDFC bank customers can buy using their bank account number. Federal Bank has similar arrangements with Rediff. com and Fabmart. com. ICICI has setup Magiccart. com, an e-tailing site. At the B2B end, Banks are offering Net Banking service that allows electronic fund transfers among a company, its vendors and dealers. Another service being targeted at this segment is cash management. This will reduce the float, which is present in physical processing of the payments. The Banks are also trying to integrate their systems with the ERP/Supply Chain system of their clients. This will enable the bank to benefit from the movement towards e-procurement. E-Procurement involves making transactions online and processing the payment electronically.

## **Research Methodology**

Above discussion provides a base as to how the customers and the bankers perceive the internet banking. As online-only banking is not present in India right now, based on literature two independent surveys are conducted to understand the perception about online banks in India.

## **Customer Survey**

The customer survey is conducted to analyze the perception about Online-only banks and to have a view on the acceptance level of this new form of banking among the target customers. Although as observed by [7] and [9] the user acceptance among the older users is increasing for online-only banking, in India, the initial users are expected to be mainly from generation Y, i. e. Young generation who are at the threshold of deciding their primary banking relationships. Keeping this in mind the sample for this study is the students from an educational institute and Employees of major IT companies in India. Convenience sampling method was used. The reasons of using this sampling type are twofold. First, it offers an easy way to obtain the raw data for the further analysis. Second, it saves times and costs since the respondents can be randomly selected. Although there are limitations of using students as subjects, they are appropriate in this study for several reasons. First they are good surrogate for banking customers; they are current bank customers, have experience with traditional banking services and are most likely familiar with the Internet banking. Second, student sample reflects current and future banking customers. Most of the respondents are active users of internet and between 20- 30 ages.

## **Survey questionnaire**

The questionnaire contained 10 questions establishing their present level of use of banking services, preference about doing various possible activities via three existing mediums i. e. Branch, Internet and ATM; their level of comfort for adopting online-only banking, key factors which can drive them

into a online-only bank and also which can compel them to stay away from online-only banks. The detailed questionnaire is attached in Appendix 3.

## **Tools and techniques used**

In order to reduce the effort and time required to collate the responses from a physical survey it was decided to perform the survey using some technology. The questionnaire was first prepared in pdf form using Adobe LiveCycle Designer ES 8. 2 which enabled the surveyor to get all the responses into excel sheet automatically, to do the analysis work. Most of the surveys from the student community were done through this form. However to get responses from employees working in IT firms was a bit tricky due to certain security concerns regarding incoming and outgoing mails in respective IT firms. However, they themselves pointed out a preferred way out in form of an online survey. Taking a lead from there, the same questionnaire was then converted to a online form which allowed to fill form online and record responses in an excel sheet. The form can be accessed at <https://docs.google.com/spreadsheets/viewform?formkey=dER3Z0g0NjNkOEF5eFY3akxzYVhJeUE6MQ#gid=0> The survey link was also uploaded on Facebook and other social networking sites which got a few responses as well.

## **Banker Survey**

As the online-only bank is a new concept in India, it was equally important to know the bankers perspective in this regard. Taking help from [9], [10] and [11] a standard questionnaire was created for the bankers but the responses to that were not enthusiastic. After that the questionnaire was changed to allow for more subjective answers. This enabled the surveyor to get deep

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into the concerns and areas of opportunity in this new form of banking as viewed by the bankers. The sample for this survey was experienced bankers from both public sector banks and private sector banks equal in number. The survey was done by visiting the bankers in person during non-business hours. Out of the 16 bankers visited, 15 gave responses for the survey.

## **Detailed Analysis**

### **Customer Survey**

The analysis of customer survey is done using excel sheet. As mentioned above, the survey was primarily done among the young generation. The online survey got 45 responses and survey in pdf form got 56 responses, summing to a total of 101 responses. Two main categories of respondents were students and IT professionals. Though it was not intended to have responses from only these two categories, they were the one who responded more eagerly, subjected to their comfort level with online and pdf surveys. As the survey was open to all, and was also available on social networking site, the survey got responses from professionals working in other industries but their total number is small. The statistics regarding this is summarized in

Table 1. ProfessionNo. of RespondentsIT

Employee40Student40Banker7Electrical

Engineer4Telecom4Accountant2Teacher2Business1Chemical

Engineer1Total101Maximum respondents were banking with Public sector banks followed by Private sector Banks and Foreign Banks. Also there were 31 respondents who were banking with a mix of banks.



## Level of Activity

### Level of Activity

Branch	Internet Banking	ATM	Mean
less than 2 times	94	264	194
2-5 times	53	234	3.51
5-10 times	12	119	5.10
10-15 times	22	34	28
15 times or more	1	169	160

127. 5652788 To judge the level of activity, the respondents were asked to select how many times they use Branch, Internet Banking site or ATM in a month. As summarized in the above table (Table 2), out of 1566 times these respondents would have used any of these channels in a month, only 127 (8.1%) times have they used the Branches while they use Internet Banking site for 652 times (41.6%) and ATM for 788 times (50.3%). Based on the responses, it can be clearly deduced that the level of activity in Branches is far less as compared to Internet Banking and ATM. Though this indicates that branches have reduced their significance because of the presence of Internet Banking site and ATMs one cannot deduce it till a thorough analysis of the activities done through these three channels are analyzed. For this, the respondents were asked to select their preferred mode of banking among these three for a nearly exhaustive list of activities a customer wish to do at a bank. The list of activities along with the percentage of preference is shown in figure Based on above data, assuming equal significance to each activity, it can be seen that preference for Branches, Internet/mobile and ATM is 43%, 44% and 13% respectively. So, internet/mobile comes up as the most preferred medium of banking. Though ATM is solely preferred for cash withdrawal but in certain cases ATM is preferred to deposit money in

account. Above assumption of equal significance of each activity is not practical enough as the activities like opening an account is not equally significant as updating passbook or purchasing insurance. So, a further analysis of these activities was required. The activities were then divided among Account Operations, Fund Transfer, Loans and Advances and Ancillary services which are the major classification of operations/services offered by a bank. As shown below in figure after this classification, Internet/Mobile emerges as a preferred channel only for Fund transfer and Ancillary services while for Account operations and Loans and Advances Branch is still the preferred channel. Account Operation Fund Transfer Loans and Advances Ancillary Services Open an account Transfer funds to accounts at same bank Apply for a loan (Car/Home/Personal Loan) Create Demand Draft/Cheque Check account balance Transfer funds to accounts at other banks Process your loan account View or pay bills Cash withdrawal Check loan status Check credit card balances Deposit money in account Apply for credit card Cheque Deposit Purchase insurance Update your passbook

A high level of preference for Branch in Account operation is observed due to presence of two activities named 'Opening an Account' and 'Update your passbook' which activities are done not on a regular basis. Though opening an account is an important step for starting a banking relationship, this is done only once. Similarly, in most of the cases, now-a-days passbook is either not used or if it is used, it is used not regularly. So assuming smaller importance of these two activities in overall gamut of activities done by a

customer, Internet/Mobile Banking channel is faring well. For loans and advances preference for Branch is expected as physical presence during loan sanctioning process is normally required. Similarly for processing loan subsequently, physical presence is preferred. This insight provides another way of classification on the basis of requirement of physical presence for an activity to be done. On this basis the activities are classified as Physical Activities Non Physical Activity

Physical Activities	Non Physical Activity
Open an account	Check account balance
Cash withdrawal	Transfer funds to accounts at same bank
Cheque Deposit	Transfer funds to accounts at other banks
Deposit money in account	Check loan status
Update your passbook	View or pay bills
Apply for a loan (Car/Home/Personal Loan)	Check credit card balances
Create Demand Draft/Cheque	Apply for credit card
Purchase insurance	Process your loan account

Based on this classification the preference is shown below. The classification shows that for physical activities Branches are still the preferred channel for as high as 60% of cases. Activities leading in this category for which preference is as high as 60% are ' Open an account', ' Create Demand Draft/Cheque', ' Cheque Deposit', ' Update your passbook', ' Apply for a loan' and ' Process your loan account'. The activity named ' Deposit money in account' is preferred via Internet/mobile channel to the extent of 36%. Above analysis proves that internet/mobile is strongly emerging as a preferred channel for doing banking. Certain activities which are still preferred through Branch are the one with higher amount of physical presence required by nature of activity done. Still there is a substantial group of people who prefer these physical activities to be available on Internet/Mobile channel. Above results are further strengthened from the statistics obtained for the response to the question that weather the

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respondent is comfortable in transacting through internet/mobile rather than going to physical branch. As high as 97% responses were in favor of Internet/mobile channel.

## **Perception regarding Online-only Bank**

To analyze the perception about online-only banks, respondents were asked to rate some of the advantages and lacunae of online-only banks as have been found out by international experience. The respondents were asked to rate the importance of following advantages which can compel them to accept online-only banks: Higher interest rates offered on Savings Bank Deposits than Traditional Banks Lesser interest charged on Loans taken from online-only Banks than Traditional Banks No or considerably lesser fees charged (than Traditional Banks) on services offered 24X7- I can do my banking when it is convenient for me Better control over finances More banking services available online Can do my banking in private No queues and lesser wait time The result is shown in the figure below. This shows that natural advantages of online-only banks like 24X7 banking availability and hassle free banking without any queue are the one favored by most of customers. The responses show that customers are more sensitive to lower interest rates on their loans than higher interest gained on their deposits. All the factors listed were adjudged to be important by more than 70% of the respondents. This shows that online-only bank have merits which are cherished by Indian customers. The major disadvantages of online-only banks given to respondents to rate are: Feels it too risky Don't trust giving contact information online My online connection is too slow It's too complicated and time consuming Prefer to deal with people face to

face Perceived delays in processing of documents There could be some hidden charges/fees not disclosed It can face problems while offering Products like Loans to customers It is difficult to read online The results are The most important disadvantage emerging out is the perception that there could be some hidden fees and charges in case of online-only banks which primarily arise from a large number of similar cases regarding online products and services. Security concerns are next most important factor emerging out. For a successful implementation of online-only bank strong security measures are a must. A full-proof IT environment is the prerequisite to start with a completely online bank. One of the major factors which could be of great importance for more aged customers was preference to do bank dealings in person. This factor is adjudged as mildly important from the respondents showing that new generation requires not personal assistance but personalised service environment. This factor is very important because for this purpose only branches exist. With decreasing importance of this factor it is expected that importance of branches will diminish soon. Loans and advances are a concern for customers as shown by a high level of importance given to the idea that bank can face problems in providing loan products to customers. This factor emerges out as one of the important concern areas for the online-only banks. Overall analysis of impact of advantages and disadvantages of Online-only Bank shows that advantages have more impact than disadvantages in customer's perception towards these banks. This allows one to deduce that consumers are in favor of online only banks. This is further strengthened by the following survey result: Given their present use of banking services, 75% favored getting an online-only bank. This statistic is important given the fact that most of the respondents

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have heard about an online-only bank for the first time. As awareness regarding online-only bank will increase this number is bound to go up. As it is clear by now that consumers are willing to bank with an online-only bank, next question arise that weather a new entity should open online-only bank or an already established bank. When consumers areA new entity opening an online-only bank will be keener to provide services of better quality and incentives over and above than what would have been provided by an online-only bank established by already existing traditional banks. However, a traditional bank opening up an online-only bank will be able to gain a large customer base at a faster rate due to its better reputation in market. Consumers are in favor of traditional banks opening up online-only banks as shown in figure. One of the respondents replied swiftly in favor of traditional banks that faith and belief are the key pillars of banking and traditional banks surely gain on these factors.

## **Service innovation**

One of the key advantage as adjudged by the consumers is the possibility of more services being offered by online-only banks. To find out what could be those services respondents were asked to mark those services out of five listed services for whom they are willing to pay a fee. This is an effective way to find out the services which are actually wished by the consumers. The results are as shown in figure. Most favored service is the plan to store all loyalty cards and provide cash benefits in lieu of points earned on them. Next most favored service is scheme to provide third party offers to customers. ServiceFavourable response in %I can be notified by Twitter/Facebook for a transaction occurring13My bank will store loyalty

cards and convert points to cash67My bank can offer spending analysis tools38My bank can offer me relevant third party offers59My bank would store my documents in a virtual vault55

## **Banker Survey**

Once the consumer survey favored the online-only banks, next step is to analyze the view of existing bankers regarding these banks. The respondents can be classified into two major groups viz. Response ProfilePrivate sector7Public Sector11This provides a complete view of picture as canvassed by the bankers regarding online-only banks.

## **Internet Banking**

To start with, the bankers were asked whether internet banking is able to provide complete solution to retail customers and corporate customers or not. For Retail customers: There was a mixed response to it. Almost all bankers responded that while the bank has all the products either related to deposits, advances or ancillary service available online for retail customers actually there is more off-take for deposits and ancillary services. On the advances side, the customer can initiate the loan application for certain loans like personal loan and Education loan, for other loans online is not preferred. Moreover, the general consensus was that the loan applicant has to come to the branch for a face to face interaction and signing of documents in front of authorizing officer without which loan cannot be processed. For Corporate customers: similar response as retail customers. Here also the main thrust is on deposits and services like tax payments, online remittances etc.. On the advances side, there is no product available. Some of the private sector respondents however told that the bank is trying

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new innovative products like cash management service and working capital loan through online medium. The impact of new channels coming up in banking is that the burden on bank branches is reducing. One of the major innovation in this area is the introduction of ATMs which has almost completely swept the cash withdrawal from branches as far as retail customers are concerned. Another major innovation mentioned in responses was RTGS/NEFT which has reduced the number of cheques and demand drafts drastically, again reducing the burden on Bank branches. Internet Banking similarly reduced the burden on branches. As a result of this all the bankers accepted that now they are more able to concentrate on their core activities i. e. Business generation through deposit taking and sanctioning advances. Above results are important in the sense that they show the acceptance level of bankers towards new technologies and innovations coming in the banking industry. This provides authenticity to responses received from bankers.

### **Prospects of Online-only Banks**

The bankers were clearly in favor of online medium as far as deposits and services are concerned. All of them responded positively for the same. The only rider on this was that the reach of online-only banks will be limited to certain targeted customers only. The bank can go online for deposit purpose in urban areas only and to certain extent in semi-urban areas. This strategy can be adopted by a private bank but is not favored by public sector banks who have established rural banking as an integral part of their mission. The bankers were of the view that given less penetration of internet cables and computer literacy in rural areas, there will be huge costs involved for the



online bank to setup their customer base in rural areas. As discussed above, bankers iterated their concerns over making loans and advances process online. They are of the view that this may be possible only in case of certain personal loans and that too for customers with good relationship with the bank. The bankers responded that a completely online bank can leverage upon its use of technology to know the banking relationship of any customer. This can also replace the judgment based system adopted by the bankers for sanctioning a loan to existing customers. However most of bankers were of the view that sanctioning a loan to new customer without having any personal interaction, only on the basis of online interactions would be too risky for the bank. Most of the bankers are of the view that online-only banks will be a better way to attain new generation customers. The bankers are already experiencing decrease in customers from young generation coming to branches. Bankers reported that these young customers are more eager to adapt internet and mobile banking solutions for banking. Moreover as a retention measure, the bankers are themselves promoting internet and mobile banking over branch banking to this customer segment. When asked about what should be the target customer base for an online-only bank for deposit purpose, the unanimous answer was retail customers in urban centers. Though, certain bankers also indicated some strong opportunity in form of corporate customers if some extra benefits are provided to them. With interest rates offered on deposits by online-only banks being higher as compared to other banks, corporate customers can be easily lured. For advances, the most favored response was the corporate customers. This can provide larger off-take of credit with smaller transaction cost involved. Although for advance purpose retail salaried customers with salary account

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in online-only bank were also favored by certain bankers. Regarding the regulation aspects of online-only banks most bankers favored higher capital charge and stricter regulation in initial phase of online-only banks, which will lead to a slow but sustainable growth of these Banks. However certain private sector bankers were of the view that heavy regulation may not be good for the bank.

### **Traditional banks vs new entity**

As with the consumers, bankers also favored online-only banks opened by already existing traditional banks rather than opening online-only banks by a new entity. But bankers posed their concerns over traditional banks getting into this new area. Bankers observe that online-only bank could suffer from the stereotype which their bank holds in the minds of the consumer. Beyond doubt there are certain lacunae in the working of traditional banks like less inclination towards retail customers compared to corporate customer and slow credit appraisal which if transferred to online-only bank can result in less favored response from the customers. There were concerns over lesser efficiency of these traditional banks moving into online-only banks. Although most of the activities would be technologically driven, traditional banks could act slow in times of exceptions occurring which could result in huge losses for them. And last but not the least there were concerns over policy dilemmas if online-only banks are opened by already existing traditional banks as new online-only banks will tend to offer higher interest rates on deposits and lesser interest charge on loans to the same customer who is already banking with the traditional bank parent of online-only banks. Also there will be concerns over Human Resource policy like transfers which will

not be there practically and salaries and promotion as the employee base and working environment of a online-only bank will be a lot different than a traditional bank.

## **Competition**

Because of their focused approach towards certain segments of customers initially, most of the bankers feel no serious competition from online-only banks immediately. But all of them were of the view that as new generation is becoming the biggest customer segment for most of the banks and this generation favoring online-only banks, these banks can become serious competition to traditional banks. Also the bankers observed that online only banks can grow really fast because of their high reliance on technology right from the beginning. To attain scale, they just need to increase their database capacity and strengthen their security mechanisms. There will be not much investment involved as far as physical setup or employee base is concerned. While for a traditional bank to expand they need to increase their reach by opening more branches in unbanked areas. This requires more effort and investment which seriously caps the prospects of rapid expansion of traditional banks. Also as observed by bankers while a team of 10-12 persons in a traditional bank branch is able to handle some 50000-75000 customers, the same team size in a online-only bank would be able to handle lakhs of customers. Based on above observations, this can be said that online-only banks have huge potential to expand and serve a very large number of customers with minimal physical infrastructure requirements. So, online-only banks can pose great competition to traditional banks if these banks are allowed to operate in India.

## **Operating Costs for traditional Banks**

With online-only banks starting operations and attracting more of young generation customers out of traditional banks, certain bankers said that their own operating cost may go up. But at the same time most of the bankers agreed to the fact that with these banks coming in, traditional banks will become more focused towards those customers who still need branch banking. They are of the view that there will be a significant customer segment comprising both new generation and older ones who will prefer a mix of both Branch and Online banking rather than only having online-only banking. This will allow them to increase their business in future as well. Though the operating costs may increase in future, but will be more than compensated by higher business levels. Overall assessment of responses from the bankers reveals that there are shining prospects of online-only banks in India. But these banks have to mull upon a specific strategy to do their business as most of the strategies adopted by the traditional banks are not applicable in case of online-only banks. These banks will surely be favored by a lot of customers (young customers in initial stages and others afterwards) but bankers are of the view that these banks cannot completely replace traditional bank branches. In long term, there will be an equilibrium set up between these two classes of banks.

## **Discussion and Suggestions**

The initial users of online-only banks will be the new generation who has more propensity to work online and wish for more private and customized service. Latter on they will be joined by all age groups. Internationally it is seen that though online-only banks are good in implementing certain

strategies like better prices on loans and deposits, rapid growth but are not able to execute certain very important strategy like controlling their overhead expenses. Out of the total banking activity done by any customer only 8.1% of times he finds it necessary to go to any physical branch of the bank. The major activities which the customer does in a branch are Open a new account Deposit cash into account Apply for a loan Create Draft/Cheque Check deposit Process loan account Rest all the monitoring and fund transfer related activities are preferred by the customers to be done online. ATMs are mostly serving as cash dispensers. Hence, for successful implementation of online-only bank the focus should be on providing viable and customer acceptable alternative methods of performing the above mentioned six activities. All the above activities are physical in the sense that they require one or more than one steps of interaction and exchange of documents. With the help of technology, interaction can be done through a variety of ways like voice call, internet chat or video-conferencing which reduces the physical activities to exchange of documents. With availability of Phone Banking service and highly comprehensive internet banking site a customer can order a Cheque book, place a request for creation of a Draft or apply for a new loan or a new account creation. For exchange of documents the need is to devise a fast way of transfer of documents to and fro the customer's address and Bank's processing cell. A strategic tie-up with a leading courier service provider thus becomes a vital strategy for an online-only bank. This will also enable the bank to have drop points present at all the service centers of the courier service where customers can drop their documents intended to be send to the bank for processing. All international

banks have such alliance through which the customers are able to send hard-cash and get it deposited into account.

### **Account acquisition and Deposit strategy**

The bank should focus on young generation retail customers in the beginning as a major portion of this segment is already conversant with internet banking and is using the service for their own benefit. A higher interest rate on deposit will attract the customers. As majority of services of the bank has to be free without any fee/charge levied, the bank will have meager prospects to earn fee income. In such a case the bank can provide new innovative services to the customers like storage of loyalty cards or offering certain third party offers for which the customer is willing to pay a fee. Moreover in an concerted effort to reduce the processing costs involved in certain activities like disbursement of a new Cheque book complete automation of these activities can be done like a completely automated Cheque delivery system can be implemented which can record a new request for Cheque book raised via internet banking site, send this request to a third party Printer who will print and dispatch the Cheque book. In such a system, all the records can be kept online. A major hurdle in account operations as faced globally is transactions related to accepting cash to be deposited into account. Often there is delay of as high as 3-4 days is observed in credit of these funds into accounts. This may hamper the customers' trust and belief which can prove detrimental to overall image of online-only bank. Once again, the solution for this is a strategic alliance with a big courier service provider, who has the capacity to ship the funds safely and swiftly.

## **Loan and advances strategy**

The interest on loans and advances has to be lower than traditional banks. This will attract plethora of new customers who are more sensitive to lower interest charge on loans taken than higher interest received on their deposits. As is observed above, the online-only banks are good for transactional lending rather than relationship lending, small ticket retail loans rather than big ticket corporate loans should be the strategy in long term. However, the bank may face problems in customer confidence to transact through online medium and effective processing of the loan proposals in the initial phase, the main focus group for loans and advances should be the large corporate houses initially. This will enable the bank to achieve scale at a much faster rate. Going beyond that after some time, the bank should target retail customers having already existing active relationship with the bank. This will enable the bank to have high quality loan accounts with minimal NPA levels. The bank has to instill confidence in the customers regarding their loan appraisal and disbursement process as this is one of the key concerns for the customers. Loan appraisal has to be done swiftly without delays and efficiently without having any mismanagement of documents and other key information during the process. A highly efficient and experienced team of employees is required for the purpose. This may increase the operational expense of the bank.

## **Operations strategy**

One of the major concerns for online-only banks is the containment of their overhead expenses. For this a proper planning exercise has to be done establishing major goals and milestones for the bank. Also detailed

operational guidelines for each activity should be formulated. Manpower and talent acquisition is going to be a daunting task for the bank. As the employee strength will be very less as compared to any traditional bank the bank cannot compromise on the quality of employees recruited. Moreover technological background for most of the employees poses HR issues of its own kind. These employees would expect a much higher compensation for their service than a normal employee in a traditional bank. Three major activities which require specialized expertise and cannot be automated are documents screening for new account creation, Loan processing and Cash deposits. Dynamic allocation of manpower in these activities is necessary according to the workload during a day and during a season according to the anticipated pressure on any particular activity. Beyond these three activities Call center Dept. is going to be the biggest department by number of employees. Considering the fact that this is going to be the only channel of personal interaction in an online-only bank, a focused attention to this dept is necessary. Moreover as the size of the bank grows, Call center operations will be needed to grow in size posing a huge risk of management and talent acquisition. The system design should be robust enough to handle all anomalies and breakdowns as may occur and at the same time be expandable to any levels based on the business requirement. This will allow the bank to contain its expenses on expansion and maintenance of system. This way the system expense may be regarded as a variable cost rather than a fixed cost for the bank. Though general experience based economies will be observed by the bank, technological experience based economies will be observed after some time. This means that as the bank will grow in age its experience will allow the bank to perform better, but experience on



technological front will be late to reap benefits for the bank. Instead the bank will be able to reap more benefits due to increased scale of operations over time. This is due to the fact that online only banks are characterized as a high-volume, low-cost strategy for delivering basic banking services.

## **Marketing strategy**

Although advertisements in print media, radio or television may fetch some customers for the bank, the customers acquired will not be the one targeted by online-only bank itself. Advertisements on internet sites using Google ads may be a good strategy for the bank but this too if restricted to Banks' sites and other financial sites will fetch most interested and technologically competent customers in large numbers. This will also be one of the most cost effective strategies among the strategies listed.

## **Conclusion**

Customers in India especially the young generation customers have shifted to Internet banking for most of the regular activities done in banking arena. With internet banking having strengthened its root the time is reaping to move to the next big step in the form of online-only banks. Both the customers and the Bankers are in favor of introduction of online only banks in India but both have reservations of their own. These along with the international experience can provide a strong foundation for online-only banks establishment in India. Most of the reservations regarding online-only banks are regarding physical activities requiring face to face interaction and transaction of documents. These physical activities can be reduced to maximum possible extent with the help of technology the way it is done by a fleet of online-only banks in other countries. The analysis suggest that for an

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online-only bank to be successful the best strategy is to implement each of the primary elements of the Internet-only business model early in its life (lower overhead, more attractive prices, and faster growth), and manage to keep its expenses down. Online-only banks will grow at a very high rate with low cost high volume strategy but its presence will not undermine the traditional banks, who will continue to serve their customers with same strategy. Most of the customers observe that given their present usage of banking services, they are ready to adopt online-only banks which will provide extra benefits to them (the benefits they cherish). Similarly the bankers observe that online-only banks have capacity to serve the retail customers completely without any major regulator's concern. Hence, Online-only bank being favored by both the customers and the bankers alike emerges as the need of the hour.

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