Insights into Customer Interactions in the Banking Industry - A Qualitative Relationship Marketing Study

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ABSTRACT

The financial services environment has been subject to changes on many fronts. Technological change and advent of the internet are among the most dramatic and challenging areas of change for the sector .It has been predicted by research that the use of internet for retail banking would be nearly universal by 2011.There is a need for the banks today to build relationships with their customers in order to retain them for a life time. One of the most significant developments in retail banking in recent years has been the development of new distribution channels made possible by technological innovation. E-banking facilities have rapidly been established by the major banking organizations all over the world, both as stand alone operations and as an integrated part of an established banking service.

Bank marketing in recent years has seen the use of technology in creating new channels through which customers can transact their accounts and interact with the bank . The literature shows how banking has developed rapidly and become a mainstream channel, but concerns have been raised about the ability of banks to manage customer relationships effectively through this channel

The paper uses a series of focus group-discussion groups to examine the circumstances under which consumers of financial services perceive a benefit from having a banking relationship. Specifically, it attempts to understand what motivates consumers to form relationship with banks and to what extent this is determined by the decision making environment. To achieve this objective the paper draws upon the interaction and relationship marketing literature and examines banker-customer interactions when purchasing a range of financial services. The importance of the paper stems from the fact that it sheds light on the interaction mode and increased customer participation and, therefore, examines the opportunities for marketing, enhancing quality and improving customer retention.

The technique of Focus Group discussion probes into the mind of the customer and brings out his real likes and dislikes. The Focus group discussion was held in New Delhi , Noida and Gurgaon to find out what the customer wants from his relationship with the bank. The discussion was commanded by a moderator and an interpreter, the findings of which are presented in this paper.

Keywords: banker-customer interactions, banking relationships, loyalty, trust, focus group discussion.

Introduction

The paper examines the circumstances under which consumers of financial services perceive a benefit from having a banking relationship. It, therefore, builds upon the earlier work of Barnes and Howlett (1998); Gronroos (1997); and Gwinner, Gremler and Bitner (1998); and attempts to understand what motivates

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consumers to form relationships with banks. In contrast to these earlier works, however, the present paper tries to ascertain the extent to which customer motivations and needs are determined by the decision making environment. This is facilitated by examining banker - customer interactions, when purchasing a range of financial products.

The importance of the paper stems from the fact that it focuses attention on banker - customer interactions and implicitly recognizes that the interaction mode and increased customer participation, provides opportunities for marketing, enhancing quality and improving customer retention (see, for example, Lehtinen 1983; Lovelock and Young 1979). Moreover, Beaton and Beaton (1995) have argued that customer involvement may be more important than either service, quality or value in establishing a relationship.

Having discussed the relevant literature, the paper presents the research method and the empirical findings, which are based upon a series of focus discussion groups. The groups were structured around an interview schedule, which was based on the banker - customer interaction and relationship marketing literature. Inter alia, this provided insight into customer involvement and confidence, loyalty and trust. The focus discussion groups also shed some light on how customers prefer to bank, in terms of what motivates them to use different delivery channels and how this is determined by the nature of different financial services.

Gronroos has defined a relationship marketing perspective as based upon the desire to

> " .... Establish, maintain and enhance (usually but not necessarily long term) relationships with customers at a profit, so that the objectives of the parties involved are met. This is achieved by a mutual exchange and fulfillment of promises". (Gronroos 1994).

Research on relationship marketing in the field of financial services has tended to focus upon commercial rather than retail banking. However some studies have focused upon retail banking and the customer's perspective. Holmlund and Kock (1996) in their study of retail banking in Finland found that long-term and stable relationships were quite common. They also highlighted that for customer relationships to work, the customer has to feel that he or she gains something from the relationship. Barnes and Howlett (1998) in a critique of the relationship concept argued that the relationship marketing approach has failed to take particular note of the customer's perception of value. Drawing upon social psychology work in this area, they postulated that for any sort of relationship to exist between consumers and retailers, it has to be acknowledged as such by the customer. To operationlise this assessment they focused on three dimensions first, the closeness of the relationship; second, the emotional content of the relationship; and third, the strength of the relationship. In this manner, they argued that providers of financial services have the potential to form relationships because customer involvement is often high due to the nature of the services offered which can be complicated, risky and long term. From qualitative research on these questions Barnes and Howlett found that critical to relationship formation was the way customers were made to feel in their interactions with financial providers.

In attempting to unravel the value and benefits which customers accrue from relationships Gronroos (1997) has argued that consumers can operate on the basis of either a relational or transactional intent. Consumers operating in a transactional mode are not open to relational invitations and their priorities may typically revolve around such considerations as price and convenience. Gronroos also makes a distinction between relational consumers that are either active or passive: "consumers or users in an active mode seek contact, whereas consumers in a passive mode are satisfied with the understanding that if needed the firm will be there for them".

The relational benefits which customers supposedly receive from service interactions has also been researched by Gwinner, Gremler and Bitner (1998). They found that the elements which customers perceived as important when discussing their relationships with service providers included confidence benefits, social benefits and special treatment benefits. The confidence dimension notably included reducing customers' feelings of risk and anxiety, and establishing trust in the service providers on the basis

that they knew what to expect.

Carpenter (1977) analysed the relationships between banks and their small business customers and found that relationships could be identified as meaningful, mainstream or unfulfilling. Meaningful relationships were those in which the bank was perceived as "doing a good job" and "having the interests of the customer at heart", whereas customers in unfulfilling relationships perceived their bank less favourably and were more likely to switch to alternative providers. Carpenter's work also draws attention to the external factors which may influence a business customer's perception of their financial provider. For example, those with meaningful relationships tended to be more successful than those with unfulfilling relationships. This pattern may similarly apply to a personal customer's perception of their financial provider, with more wealthy customers less likely to feel trapped, less likely to incur excessive bank charges and generally able to exercise greater choice and control over whether to stay in or exit the relationship.

Consumer Interactions

Banker-customer interactions consist of two components: the content of the interaction and the interaction process. Content can be classified as consisting of economic, information and social exchange. Although economic exchange, i.e. the exchange of money and services, predominates in retail banking, information exchange and social exchange are important too. For example, information exchange, which refers to the giving and receiving of information, reveals itself in the counseling and financial planning advice which banks provide to customers. Similarly, social exchange, i.e. contact between two (or more) people, has traditionally been important in banking and possibly explains why branch networks remain attractive to certain segments of the customer base even though they may not be as convenient or even as cost effective as alternative delivery channels.

In order to understand banker-customer interactions, it is also essential to take into account the different needs of consumers. According to Normann and Haikola (1986), there are two basic consumer needs: the first is concerned with the need to balance consumption over a certain period of time and is primarily concerned with deposit and lending services. With these services, the consumer appears on both sides of bank's balance sheet and as such they are uniquely placed at both of the traditional value chain. This partly explains why it can sometimes be difficult to ascertain the perceived value customers derive from having a banking relationship. In contrast, the value a bank gets from having a relationship with its customers is far more tangible because it can increase profitability by enhancing the opportunities for cross selling and reduce customer attrition by developing feelings of customer loyalty and trust.

The second basic consumer need is concerned with the need to transfer money between different parties. The interactions which underpin this need, are referred to by the banks as transactions and relate to the consumer's need to transfer funds within the economy. Accordingly, they rely on the bank's comprehensive infrastructure and pivotal role in the money transmission mechanism. Moreover, because they are easily standardized and require only relatively small amounts of information exchange, they can be automated in the form of direct debits, standing orders, etc. This means that they typically involve only small amounts of intervention by bank staff or consumers.

Research Methodology

Three focus discussion groups were arranged in New Delhi, Noida and Gurgaon. Each group consisted of 7 people and lasted for approximately 2 hours. The Delhi group consisted of males and females 18-29 years old in the socio-economic group. The Noida group consisted of females aged between 30-45 years old and the Gurgaon group consisted of males aged between 48-65 years old. In total 21 people took part in the research. An interview schedule was devised which sought to focus on the main issues of interest, but also allowed the participants to introduce topics, which they perceived as important in their relations with financial service institutions.

The objective of these groups was to obtain further insight into consumer perceptions about relationships and interactions with banks. It was decided to classify financial services and products on the basis of consumer need advocated by Normann and Haikola (1986). Accordingly, discussions focused on the following bank as a generic products.

Focus Group Discussions and Banker-Customer Interactions

At the commencement of each focus discussion group, the participants were briefed about the purpose of the research and the nature of the banker-customer relationship. Specifically, they were advised that it was not a homogeneous concept and incorporates a wide range of interactions, which vary according to the different needs of consumers. In other words, the interaction process and, therefore, relationships vary according to the characteristics of specific financial services (Shostack 1977; Bateson 1989; McKechnie 1992; Betts 1994). This also means that a single consumer can simultaneously experience several different bankers - customer relationships, depending on their particular need, at any point in time.

Participants were also advised that interactions did not necessarily involve face to face or even physical interaction. For example, they could be facilitated by a telephone, or by a cash machine, or a direct mail shot. Equally an interaction could involve the bank paying a customer's monthly bills by standing order or direct debit.

Transaction Services

For consumers in the focus discussion groups the decision as to where to open their savings accounts appeared to be primarily based upon convenience considerations such as the location of the financial institution in relation to where they worked or lived. As one of the male participants in Gurgaon, explained:

> "Because it was about 15yards where I worked and in those days that was the main consideration."

Similarly, one of the female participants in the Delhi group said:

> "'. I'm from East Delhi and the only bank in this area is ICICI, so if I didn't go to ICICI ,I would have had to travel very far to look for a private bank .

Another important factor was the influence of family and friends. The influence of family members was particularly important for the Delhi group, which contained the youngest group of consumers:

> ". . It was mainly that my family has always banked with State Bank of India and my first ever account was opened there."

> "I've had PNB to start with because my Mum and Dad were there."

For these young participants, another concern was the available working days and timings of the bank and the cost in terms of the amount of interest they would be charged.

For the Noida participants (females 2), however, rather than working days and timings , they were more concerned with whether the bank would grant them a loan.

All three discussion groups regarded the image of the banks as less important than these sort of "pragmatic" issues. In fact, it was quite difficult to start a meaningful discussion on bank image. Participants were, therefore, asked to think of one word, which best described the image of their banks.

On the whole participants tended to have one main bank account, into which they paid salaries, withdrew cash and paid direct debits and standing orders, etc. With the exception of the Delhi group, there was a tendency to separate these transactions from their other financial activities.

In addition to this consideration, all three groups expressed the feeling that banks were not particularly good at investment and specialist services.

This tendency to separate transaction from insurance and specialist services suggests that the retail bank's emphasis on cross-selling ancillary services might be sub optimal in the short term. The older respondents revealed no real propensity to purchase say, insurance or pension products from their banks simply because they held their savings accounts with them. In fact, the evidence from the focus discussion groups suggests that consumers might have a tendency to do the opposite and purchase

ancillary services from specialist providers. This provides tentative evidence to suggest that banks should consider creating (or acquiring) subsidiary companies with strong brand images, which are distinct from that of the parent company. Alternatively, emphasis could be placed on branding and promoting specific services or bundles of related services.

However, it was interesting to note that the youngest participants did not display the same degree of polarization and did consider their banks as providers of insurance and specialist services. This suggests that there might be an awareness of change in retail banking activities toward diversification and so-called "bankcassurance". Significantly, however, as this awareness appears to be stronger in the younger generation, it might be the time to permeate this thought through the market as a whole.

Consumer Loyalty

Toward the end of the discussions the opportunity was taken to discuss the concept of loyalty (and trust) in more detail. Commencing with transaction services, the evidence from all the three focus discussion groups suggests that the majority of consumers are behaviorally loyal (Brown 1952; Dick and Basu 1994; Knights, et al. 1994) rather than attitudinally loyal in relation to providers of transaction services. When asked if they regarded themselves as loyal to their banks they tended to answer in negative terms such as "not really". However, discussions on the length of their relationship with current providers revealed that they tended to be long-term. .

Consumers tend to remain with the same bank provided the bank treated them well and made no (or relatively few) mistakes. As one of the Gurgaon participants stated:

> "I don't think I would change because I have a history with the bank and they've never done anything wrong, they've been fine to me so I've stayed with them."

Another interesting insight was provided by one of the female participants in the Delhi group:

> "I think I'm loyal out of laziness .... Unless something goes wrong."

This last response raises the question as to why consumers remain loyal to the same bank, even though they may have unfavourable images of them. Apathy is explicit in the above statement, but another significant reason was "the hassle factor" in moving to another bank. As one of the Noida respondents stated:

> "When you're working full-time, haven't got the time to do it (switch), you don't want the hassle."

This sort of opinions were expressed in all three groups to raise the importance of the basic hygiene factors i.e. efficiency, speed and accuracy. The other provisions in the form of standing orders and direct debits also appear to lock consumers into long-term relationships with their financial providers. Respondents also appeared reluctant to switch providers of transaction services because of their perceived differentiation between banks. One of the Gurgaon discussants succinctly captured this feeling with the following remark:

> "I don't think there's any evidence that any one bank is better than the others, nobody would convince me that HDFC is better than ICICI or UTI. I think they are all operating to the same system .... so you wouldn't win jumping from one to another."

This essential consumer "passivity" is compounded when we turn to the negative or bad experiences which consumers focus upon when highlighting their relations with their banks. These ranged from problems experienced when going overdrawn:

> "I've fallen out with the banks, they make mistakes, they charged me for going overdrawn and I got quite angry about that."

For these participants, the outcome of this policy was that the "personal touch" was being lost:

> "You go into the bank with a problem and they try to sell you the product closest to it, you don't get the feeling

that they're actually listening to you, he just says you need a so and so loan."

Similarly, the participants also believed that when problems occurred, this "impersonalisation" meant that they were not quickly and sympathetically resolved.

A final problem related to the participants belief that they were not rewarded for being good customers. This finding supports the view that consumers are not attitudinally loyal to their banks, largely because they do not perceive any substantive benefits in remaining loyal.

Although the discussion revealed that consumers expect nothing less than an accurate, fast and reliable transaction based service, they also revealed a strong consumer desire to be treated as individuals. This was revealed by the participant's frustration with bank correspondence informing them that they were overdrawn or had incurred bank charges. The general consensus within all of the groups was that such letters were totally impersonal and revealed no knowledge of their previous dealings with the bank. They were also dissatisfied with the way banks did not keep them informed about high yielding savings accounts and other financial products which might be suitable to their individual needs.

Personalisation of the banker-customer relationship, possible to offset or redress the high degrèe of automation in transaction services, was generally seen as a way to increase customer loyalty. Greater communication in the form of letters, telephone calls, targeted advertising and even the Internet, which carried information which was beneficial to their specific circumstances, was also seen as a positive and tangible way of promoting loyalty.

Consumer Trust

There was strong evidence within the discussion groups to suggest that consumers derive higher levels of trust from face-to-face meetings with their financial providers rather than through alternative channels such as using the telephone or an ATM. This was illustrated by the fact that when purchasing specialist products, respondents uniformly sought advice from a third party, usually a personal advisor. One might have expected that the younger respondents, who were typically users of telephone banking, would be the least concerned about the personalization issue, however there was strong evidence to the contrary. This is clearly captured by the following comments on the search-buy process relating to high earning investment accounts:

".... I got leaflets from several banks and read them. I definitely wouldn't want to do it all over the phone, I definitely wanted something in front of me to look at and then go in to discuss it face-to-face.

" I wouldn't use the phone ... The visual contact is so important, look at their eyes to see if they are trustworthy or not."

Respondents who used telephone banking used it for transaction services, but they were not comfortable when using it to obtain financial advice or to purchase specialist services. The Noida discussion group also discussed at length their dissatisfaction and mistrust of automated banking services which did not allow them to talk to a "real person".

This link between trust and the adopted channel can also be illustrated by the respondent's usage of cash machines. Most of the respondents in all three discussion groups used cash machines to withdraw cash and obtain statements. However, when questioned about whether they would be willing to pay either cheques or cash into their accounts through a cash machine, the typical response was: "Who trusts that?".

This suggests, therefore, that consumers associate particular delivery channels with specific categories of financial services. For example, cash machines are readily associated with the withdrawal of cash and the request for balances and statements; telephone banking can also be used for these sort of transaction services, and, finally, financial advisors are associated with specialist services with the emphasis being on "personalization".

The research also revealed the influence that an individual's employment might have on these

associations. In the Noida group, for example, one of the respondents revealed that they did not enjoy telephone banking in the evening because they were using the telephone all day at work. This point was also raised by the Gurgaon group.

Conclusion

The paper has examined banker - customer interactions and how these are influenced by the nature of the financial product being purchased. As such it had shed some light on the following considerations: firstly, it has provided an insight into the heuristics which consumers use in different choice environments, i.e. the "simple rules of thumb" which customers apply when interacting and purchasing different types of financial service. Secondly, the findings are in accordance with previous research, in so much as they show that customers, irrespective of social class, generally seek to create banker-customer relationships when they perceive a benefit. This is clearly discernable in the respondents emphasis on relationships, trust and loyalty when purchasing the inherently more risky and complicated specialist services. In contrast, the need for a relationship and the emphasis on loyalty and trust were far less important for transaction services. With these financial services, price and convenience were the primary considerations. Thirdly, the research also reveals that younger consumers in the socio economic group are more inclined to purchase specialist services from their primary bank compared to older consumers in the same social class. This is potentially very important because it suggests that consumer opinion might be changing and that cross selling specialist services to existing customers is a viable strategy. Finally, the paper provides some evidence on the importance of trust and possibly employment status, in determining consumer's usage of alternative delivery channels. Similarly, it was interesting to see how the nature of the financial services also influenced the choice of delivery channel, with face to face interactions being preferred by all customers irrespective of age and social class, when purchasing specialist services.

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