Internet Banking: A Dual Strategy
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The enormous investments made in the Internet over last few years now seem very far off. With the dot coms in crisis, it seems that the situation is returning to normal following the initial euphoria. This is also true of the banking sector.

During the dot com boom, the Spanish banks felt obliged to go online as they faced the perspective of a more global scenario. The banking sector had traditionally been a sector with significant entry barriers generated through the need to acquire an important number of branches. The arrival of the Internet posed a threat to the sector since banks could now operate on the net without the need to create a wide branch network. This threat was interpreted by the large banks as being an opportunity to increase their market by using the Internet as an instrument for expansion. Specifically, the banking sector then undertook two clearly differentiated strategies: they created new banks which operated exclusively online, and launched Internet versions of their banks as an extra channel through which to offer online services.

Exclusively Online Banks

These online banks started off using very aggressive price strategies and advertising to quickly capture a high number of users. This strategy has not, yet, enjoyed the success envisaged. According to data from the Spanish Banking Association (AEB), at the end of April 2001 deposits in online banks totalled 288,000 million pesetas, representing 0.55% of all the deposits in banks in Spain. In spite of this important growth, online banking is still far from reaching the deposits of high street banks. This delay in the expectations regarding growth has led the banks to observe the needs of their users and, in consequence, to adapt their strategy.

Today, as is indicated in the study “Online Banks” by PricewaterhouseCoopers and Cinco Días, the majority of online bank users normally use their online accounts mainly to view their statements and request information, to make transfers and to make payments of small amounts. Users prefer to carry out other operations at their branch, even though they have the possibility to do them online. When such large-scale changes appear, users require a period of learning and adaptation which allows them to use the new means with ease and to trust the efficiency and correct working of the basic services on the net, and also to see their advantages. Moreover, users feel there is more security when telephone support and physical contact in the branches are available, especially in critical operations such as the opening of new accounts, the taking out of mortgages or loans and in transfers of large amounts of money. This situation has led the majority of exclusively online banks to open up branches in the principal cities or to place customer service stands in shopping centres.

This is the case of Patagon, the BSCH’s online entity, which has started to place an important number of branches by way of offices or stands in some shopping centres.
The bank has offices in Madrid, Barcelona, Saragossa, Las Palmas and Pamplona. In order not to increase its cost structure, Patagon has opted in some cases to share offices with Hispamer, also part of the BSCH group, whilst in other cases it simply rents premises.*

Other entities such as Uno-e, the BBVA's online branch, intends to open to shops in Madrid and Barcelona which will sell computer equipment and offer financial advice to its clients.*

Another initiative is that of ING Direct, which set up in Spain initially as a "virtual" bank and which has now started to open ING Direct cafés, where they offer financial advice, and you can open accounts, make deposits and also have something to drink. It currently has establishments in Barcelona and Madrid.*

Meanwhile, Evolve bank, Lloyds' online entity, has opened two customer care centres and is considering using the 26 branches which Lloyds currently has in Spain.*

**What is the Difference between the Online Banks and the Multichannel Strategy of Traditional Banks?**

It does seem paradoxical that the online banks are developing a multichannel strategy, offering the user the same possibilities as the majority of traditional banks but with accounts with a higher remuneration. We should remember that online banks operate with lower costs since they offer their services through a smaller network of branches. These offices are more sophisticated than traditional offices, and may be cafés, as ING Direct, or even shops, as Uno-e, and aim to be more attractive for their clients.

Over the past few weeks we have observed how some banks are offering a different service to traditional branches by extending their opening hours. This is the case of ActivoBank, which is open from 9am to 9pm from Monday to Saturday. This strategy is more in line with the needs of potential users of online banking. This segmentation of the online banks is targeted towards users that are used to using the net, who have little spare time and who need flexible opening hours.

That said, are the users of online banks profitable enough to justify the investment made by the banks in their Internet services? These banks usually target the most profitable clients and, even though the investment may not be recovered in the short term, disregard for these clients could imply a greater loss. For the time being, what has been observed is a tendency by users of Internet banks to increase the number of times they use their accounts. Moreover, should there be a progressive migration of users to online banks, those banks best positioned in the market shall be the clear favourites.

**Traditional Banks are also on the Net**

The appearance of traditional banks on the net started off as a defensive strategy in order to avoid clients of traditional banks migrating to other entities. In this way, the traditional banks with their multichannel strategy offer the Internet as another route for users to manage their accounts. This tool allows the freeing of resources in operations of little added value, so increasing the productivity of the employees and allowing them to centre their efforts on activities of greater value for the bank. With this system, depending on the level of migration of users to the net, the banks may progressively decrease their infrastructure by reducing yet further the size of their offices or by
lessening the concentration of branches in the network.

In this sense, the online strategy of La Caixa is highly innovative. It started off with a multichannel strategy, but has gone one step further: transforming itself into an e-commerce portal. This portal aims to offer users a secure place in which to carry out their purchases. La Caixa aims to use its brand image to offer trust to users who, through fear of insecurity, are unenthusiastic about carrying out online transactions. Another interesting invention is that carried out by e-Bankinter with auctions of deposits, an innovative product in the world of finance. Auctions have been one of the most successful models on the Internet.

It would appear that in the end both the most aggressive strategies and the most defensive ones converge in the multichannel strategy. If this is so, those banks with a good network of branches find themselves in pole position.

Where are Banks heading?

The lack of a clear leader in the Internet banking sector is the cause of some confusion and means that banks do not know which business model shall be most successful. Perhaps the greatest problem for the online banks is that, given the transparency of prices and the ease of change (just a click away), the loyalty of clients is low whilst the costs to attract new clients are very high. At the beginning there was a war of prices in order to offer high remuneration deposits, although the current tendency is more towards a differentiation in services, by creating added value in the products, as the only way to gain user loyalty. The banks are trying out different initiatives: the creation of communities in the case of Patagon, e-Bankinter's Internet auctions as a means to capture users, or the complete e-commerce services offered by La Caixa. It appears that word of mouth is the best form of marketing on the net, and so it is highly likely that the good experience of one user will lead to potential users hearing about the service.

Information: An Underused Good

The Internet is a tool which, by bringing together all the information which was previously distributed throughout the branch network, can be used to study the behaviour of the users and to analyse the most used products and services. In this way it is easy to personalise the offer in accordance with the user, and to offer him products which are very possibly of interest to him. Through the banking operations carried out by the clients, the banks can study the needs of the users and create an extensive database. This database can be used to create groups of profiles and cross products in the same way Amazon.com is successfully doing. Hence, working with a good database can be another of the keys to client loyalty, since it is a tool which allows offers and products to be personalised in line with the users.

* The aforementioned examples have been taken from the article “Online Banking opens Branches and extends Opening Hours into the Evenings and Saturdays” by Ana Lorenzo published at navegante.com (El Mundo newspaper) on Monday 24th May 2001.