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Strategies for Increased Integration of Online and In-Branch Services of Banks in Canada

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Abstract

Over the last decade there has been rapid growth of Online Banking. This research examines the benefits of Online Banking and how Canadian Banks accommodate various financial activates through different service channels, including Online, telephone, ABM and in-branch. A Framework is introduced for categorizing the most common activities by their need for physical interaction and assistance and to align activities with their ideal service channel. This research is concluded with the presentation of strategies for integrating these different customer channels.

Keywords: **online banking; information and communication technology (ICT); distribution channel strategy; consumer banking preferences; Canada**

INTRODUCTION

The internet has become one of the premier channels for financial institutions (FI's) to conduct business. Never before have consumers been able to conduct personal and commercial banking activities so quickly and efficiently with their FI. For the FI's, the internet provides a means to virtually replicate the kinds of activities that would traditionally take place in a brick and mortar environment with fewer associated expenses.

During the internet's early stages prior to its widespread usage, FI's were particularly keen on recognizing the benefits of the internet and were early players in electronic commerce (Yan & Paradi, 1999). Over the course of only a few years, their websites shifted from being purely static and informational to dynamic and transaction-oriented offering a number of home banking services 24 hours a day (Mols, 1999).

In the present day, an increasing amount of bank customers in Canada are conducting their financial transactions via their FI's website. According to Statistics Canada, in 2005 about 6 in 10 Canadians used the internet to do their banking, and 55% used it to pay their bills online (Statistics Canada, 2005). At the same time, major FI's still maintain a large physical branch network to provide customers with, in some instances, the exact same service they receive when banking online. Thus, there must be some opportunity to address the service overlap that exists between the two distribution channels.
s (Nsouli and Schaechter, 2002).

BENEFITS OF ONLINE BANKING

One of the immediate benefits of the online banking channel are the lower overhead costs per transaction for the bank. Estimates of how much an internet transaction costs range in the area of $0.01 (Sarel & Mamorstein, 2003) per transaction compared to estimates of $1.07 per transaction at a full service branch (Nath et al., 2001). These cost savings are able to be realized through the automation of processing customer transactions and effectively contribute to the financial institution's bottom line. Further, FI's are able to cut costs without diminishing existing service levels (Akinci et al., 2004). Without compromising service levels and operating a lower cost per transaction, online banking has a strong value proposition for banks to continue to cultivate it as a preferred service channel for selected banking activities.

Information gathered and stored by FI's through their interactions with customers are able to be analyzed more thoroughly to identify key business opportunities. Through the use of web analytics, FI's are better able to accurately keep track of key data in their customer relationship management (CRM) systems. Relationship management becomes more imperative when the internet is the sole service channel offered by a bank for a particular or set of banking activities. The e-channel erodes the direct relationship branches have with their regular customers which stresses the need for personalization in customer communication (Shah & Siddiqui, 2006). However, CRM enables FI's via their online presence, to generate better customer intelligence, customize their offerings and communications to customers, and manage relationships more effectively (Sciglimpaglia & Ely, 2006). Effectively implemented CRM also allows for this information to be shared across the enterprise. For instance, business intelligence collected via virtual channels can now be shared through to the physical channel.

From a business perspective, the case for integrating both the online and offline channel is equally attractive. FI's are increasingly offering opportunities for customers to do their own banking. This was evident through the introduction of the automated banking machine (ABM) and more recently, online banking. The drivers that are unique to self serve environments such as online banking include reduction in customer service costs, opportunities to drive incremental revenue, and personalized real time cross-sell and up-sell (Doyle, 2006). Eliminating costly overhead to conduct banking transactions such as employee salaries while maintaining the same capabilities that personal banking employees would otherwise bring, results in a highly beneficial cost reduction measure to the FI's. It also allows the FI to pass off some of its transaction processing tasks directly to their clients.

SERVICE CHANNELS OF COMMON BANKING ACTIVATES

In a review of the five big Canadian banks we found that many activities in the areas of personal and commercial banking, borrowing, mortgage, insurance, and credit were offered through several different service channels concurrently. This considerable overlap of service channels, seen in Table 1, is historically based. When banks introduced new service channels for their customers, such as Online Banking, they did not replace the old channels. Banks instead provided incentives / disincentives such as altering service fee schedules to promote their new, more cost effective service channels.

Table 1: Banking Activities and Service Channels of the five big banks in Canada

Activity	BMO	RBC	TDCT	CIBC	BNS
Open new accounts	B	B	B	B	B
Check balances	B/O/T/A	B/O/T/A	B/O/T/A	B/O/T/A	B/O/T/A
Make payments	B/O/T/A	B/O/T/A	B/O/T/A	B/O/T/A	B/O/T/A
Change personal information	B/O/T*	B/O/T	B/O/T*	B/O/T	B/O/T
Transfer funds between accounts	B/O/T	B/O/T	B/O/T	B/O/T/A	B/O/T/A
Modify accounts (Change account features & plans)	B/T	B/T	B	B	B/T
Check rates	B/O/T	B/O/T	B/O/T	B/O/T	B/O/T
Setup pre-authorized transfers	B/O	B/O/T	B/O/T	B/O/T	B/O/T
Receive financial advice	B/T	B/T	B/T	B/T	B/T
View bills & statements	B/O	B/O	B/O	B/O	B/O
Research products & services	B/O/T	B/O/T	B/O/T	B/O/T	B/O/T
Use calculator tools for products & services	B/O	B/O	B/O	B/O	B/O
Foreign exchange services	B	B	B	B	B
Make deposits	B/A	B/A	B/A	B/A	B/A
Withdraw funds	B/A	B/A	B/A	B/A	B/A
Apply for cash management services	B/T	B/T	B/T	B/T	B/T
Order cheques (personal)	B/O/T	B/O/T	B/O/T	B/O/T	B/O/T
Order cheques (travelers)	B/O/T	B	B	B	B/O/T
Increase credit limit	B/T	B/T	B/O/T	B	B
Apply for a mortgage	B/O	B/O**	B/O**	B/O**/T	B/O/T
Refinance mortgage	B/T	B/T	B/T	B/T	B/T
Modify mortgage payment schedule	B/T	B/T	B/T	B/T	B
Apply for insurance products	B/T	B***/T	B/T	B****/T	B/T
Execute investment transactions	B/O/T	B/O/T	B/O/T	B/O/T	B/O/T

* - Within Canada only, ** - Pre-Approval Only, *** - RBC Insurance Branches, **** - Mortgage Life Insurance Only, B = Branch, O = Online, T= Telephone, A = Automated Banking Machine (ABM), BMO = Bank of Montreal, RBC = Royal Bank of Canada, TDCT = TD Canada Trust, CIBC = Canadian Imperial Bank of Commerce, BNS = Bank of Nova Scotia/Scotiabank

When examining the common banking activities and their suitability for shifting them to the more cost effective Online service channel, it makes sense to categorize them, first by their need for physical interaction, and then by their need for assistance. These are shown in Table 2 below. Activities that do not require physical interaction and no assistance from a bank employee are ideal for online banking. Activities which require physical interactions, such as handling cash or checking identification, must be done at the branch, but depending on the need for assistance they can be conducted through the ABM. Finally, banking activities which require assistance but no physical interaction can be conducted either in-branch, online, or through the telephone banking channels. These assisted – virtual activities are typically the most complex activities customers and banks need to complete, as they involve the creation of agreements between the customers and their FI under which terms they will conduct business in the future. How well banks interact with customers on these assisted – virtual activities is one of the few points of differentiation they have. Intimate knowledge of customer needs and their financial goals is paramount for providing sound advice to customers, upon which business relationships are founded during these activities.

Table 2: Banking Activities by Physical and Assistance Needs

	Self Serve	Assisted
Virtual	• Check balances • Make payments • Change personal information Transfer funds between accounts • Check rates • Setup pre-authorized transfers • View bills & statements • Order cheques (personal) • Research products & services • Use calculator tools for products & services • Execute investment transactions • Order cheques (travelers)	• Modify accounts (Change account features & plans) • Receive financial advice • Apply for cash management services • Increase credit limit • Apply for a mortgage • Refinance mortgage • Modify mortgage payment schedule • Apply for insurance products
Physical	• Make deposits • Withdraw funds	• Open new accounts • Foreign exchange services

BRING ONLINE BANKING INTO THE BRANCH

FI's can strike a balance between customer channel preferences and continuously improving the efficiency of business processes by moving an even larger volume of banking activities online through the use of in-branch kiosks. In-branch kiosks that house computers which exclusively connect to the FI's online banking portal should be installed in the branch. A singular branch employee can remain on hand to assist customers using the terminals with basic online banking processes as necessary. In addition, informational pamphlets or handouts available with step by step instructions on how to navigate and use the online banking site should be made available. There are a number of business and technology reasons why this unique fusion of their online and offline channel can be extremely effective.

Shifting an even greater amount of banking services online even in a branch environment ensures that overall transaction costs to the FI for routine activities are kept low. FI's can also continue to gather CRM information on an even greater number of customers as more migrate to using online banking. Kiosks can also concurrently address customer preferences. According to a survey done by Consumer Technographics in 2005 of North American banking customers, there is a direct relationship between age and branch preference. 77% of consumers who are age 65 and older prefer to use the branch for their banking activities (Pilecki et al., 2006).

With in-branch kiosks, the integration of virtual channel into the physical channel satisfies the preferences of all generational groups. Those who prefer the online channel can still continue to use it. Conversely, those who prefer the branch can still also do so and conduct routine banking activities albeit in a slightly different manner. There is also a real opportunity to convert older boomers and seniors into online customers based on a positive experience using the online channel in the branch. Ultimately, it may lead to older boomers and seniors regularly coming back to the branch to use the kiosks or never coming back at all for non-cash related transactions.

The final reason this fusion of channels is effective is that it addresses the issue of service overlap between the online and offline environments. There are many services offered by Banks that are done mutually exclusive of each of the website and branch channels, as seen as the virtual – self-serve activities in Table 2.

All of these services are capable of being done solely in the online environment and should be from a cost-effectiveness and operational perspective. Recall the substantial difference in per transaction costs between equivalent branch and online activities through the automation of transaction processing. For example, in the cases of viewing bills and checking balances, there are cost savings in multiple areas of the chain of activities involved in delivering a bill or statement to a customer. Online bill or statement presentment saves the FI the cost of postage and resources to mail bills or statements out to customers in frequent intervals. Nath et al. (2001) point out that electronic bill presentment costs 40% lower than paper delivery. By making the method in which these kinds of activities can be executed exclusively online via either the branch or website, it allows FI's the benefit of reducing per customer service costs through a self-service environment (Doyle, 2006). It is a substantially cheaper proposition to use one delivery method exclusively to facilitate transactions in two distribution channels rather than offer two different ways to handle the same banking activity.

BRING THE BRANCH ONLINE

FI's can also take advantage of existing technologies to enable them to broaden the range of channels that offer personalized financial advice to include the more flexible online channel. Recall in Table 1, the major FI's currently only provide financial advice to their customers via the branch or telephone banking. Using scheduling and videoconferencing software, FI's can employ personal banking officers who dispense financial advice to their clients online as well as in branch. For instance, if an online personal banking officer's client wishes to book an appointment to seek financial advice, they can login to their online banking account and interact with the officer's scheduling software to book an open timeslot to meet either in branch or online. At the specified meeting time, the client will log back into their online banking account and launch a videoconference or webcam application. Online personal banking officers can then pull up customer records and review them with their clients on their computer screens while speaking to them via two-way text conversations, a video window, or a combination of both. FI's that have existing infrastructure to receive calls and share customer information across multiple channels can leverage this capability to include real time remote financial assistance.

This type of setup allows customers to be able to enjoy the personalized experience of meeting with a personal banker in real time at more flexible hours, and also reap the benefit of not having to physically go to the branch to conduct this activity. Conversely, FI's are able to realize cost savings in branch space allocated to personal banking, leverage existing technologies for relationship building in a non-physical environment, and provide their customers with more control over how and when they receive financial advice.

A further extension of this idea may include instances where additional expertise may be required in branch or online. It would simply be a matter of having them join the existing videoconference session and have access to the same customer records in real time. This provides the customer with access to on-demand, specialized or advanced knowledge that may fall outside the scope of regular financial advice. It also allows for the opportunity for real time meetings to occur with multiple participants in a virtual environment.

DIRECTIONS FOR FUTURE RESEARCH

There are many different ways these integration ideas and the framework discussed above can be studied further. Different theoretical frameworks can be applied to examine these ideas through different perspectives: The first is from the view of the FI's. Economic and channel optimization models can be looked at to determine under what conditions should FI's consider moving or completely eliminating activities from certain channels. The second perspective is that of the customer. User acceptance models and surveys can be studied to determine what factors drive people to use one channel over another. Finally, from a technological standpoint, functional design theories can be investigated to determine what design factors influence users to use a certain interface.

CONCLUSIONS

Certainly even with the advent of online banking, the branch has still managed to maintain its status as a valuable asset to each of Canada's major FI's. Its position as an invaluable distribution channel is unlikely to change in the future. However, with a changing Canadian financial services industry which is seeing an increasing amount of competition from abroad and online, the major institutions need to maintain their distinctiveness.

Opportunities such as individual kiosks and remote conferencing should be explored to ensure that activities which are most efficiently done online stay that way while still addressing present client expectations and preferences. Exploiting opportunities such as these also allows the branches to add to the operational effectiveness of online transaction processing and can serve as a gateway for converting branch loyalists into online bankers.

The first major financial institution to seize the service channel integration strategies presented in this research will certainly be in a favorable position to not only compete with the other four, but also with an increasing number of other new competitors. As technological sophistication will continue to evolve, legal frameworks will also develop to reflect the establishment of electronic commerce as a regular means of conducting business. Thus, making key decisions incorporating technology and electronic commerce issues into distribution channels now, will allow the major financial institutions to solidify their position on the leading edge of banking for the future.

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