

# Time to make more of what we know: online financial services

**Howard Barber** discusses the lessons to be learnt from 10 years of online financial services, challenging some industry assumptions along the way



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As online financial services approaches its tenth anniversary in the UK, what as marketers have we learnt? The answer is quite a lot. Indeed for such a young industry, it appears we have got online financial consumers sussed. However, if we are to continue to be rewarded from the ever-increasing demand for online financial services, we need to make more use of what we have learnt and challenge the assumptions we have made.

So what have we learnt? Most of our understanding of online comes from asking three fundamental questions: does online create cost efficiencies? Does online grow revenue? And does online promote customer loyalty?

Many of the answers that arise tend to be negative. Firstly, far from promoting cost efficiencies, the commonly held assumption is online costs more, not less, as it has proven to be an additional channel of acquisition and servicing, rather than a replacement for branch or telephone. Secondly, the revenue generated through online delivers tighter profit margins, and cross sale performances that are lighter in comparison to other channels. This is due to online consumers always demanding best of breed products in terms of service and price, as they tend to be financially savvy consumers. Lastly, despite online consumers consistently rating the online channel as the most satisfactory channel experience when doing their finances, they lack supplier loyalty. Online consumers are much less likely to hold all their financial "eggs in one basket".

Yet despite online financial services proving to be a challenge, consumer appetite for financial services online

continues unabated. Far from downscaling online operations, investment has had to continue in order to meet the demand. Indeed, the latest figures from GfK's Internet User Profile Survey (IUPS) June 2006 show that four out of ten adults are now engaging (searching, quoting) in financial services activities online on a yearly basis and almost a third (31%) are actively banking online.

So, do we just grin and bear the fact that consumer and customer choice demands multi-channel presence that includes online? Well, it appears as if that is the case, as many in our industry now back further investment in the branch network in the belief that branch sales deliver greater margins. But while investment flows back to the branch, we should make more of what we have learnt online to make the most of its continued demand. But how?

We should look to challenge commonly held assumptions in order to promote the case for online. So, do online bankers actually cost banks more to service than their offline counterparts? The assumption that online costs more comes from the belief that online bankers don't actually stop using other channels, like the branch, to service their accounts. While GfK's IUPS certainly does show that online bankers use the branch as much as their offline counterparts (on average twice a month), the overall yearly cost to service per transaction is actually less. An online banker costs £119 per year to serve, whereas an offline banker costs £135. Moreover, if you add the potential that online banking brings in terms of providing paper-free propositions (monthly statement) to those that want it (45% of

online bankers), a further £107m could be saved each year.

What about tight margins and light cross sales? While it can be argued margins are tighter it doesn't mean companies can't make money online or that they should automatically shift activity to other channels like the branch. GfK's IUPS again shows remote (online or phone) bankers actually hold more products on average with their banks (1.85) than branch-only customers (1.68). Further, although branch-only customers do place more of the products they hold with their main bank, it is certainly not the case that remote customers are the complete opposite. Indeed, while a branch-only customer holds just over half of her products with her main bank (52%), remote customers hold just under half (47%).

However, challenging assumptions is only part of the process. We should be making more of what we have learnt. Knowing that those consumer who tend to be more financially confident and less supplier loyal are more likely to buy online

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shouldn't mean we could not create a targeting strategy to appeal directly to those who we would like to attract. Indeed, it is becoming increasingly outdated to assume all online financial consumers think and act the same as the channel continues to grow. The online channel is now the second-largest acquisition channel in terms of volume of new customers for the savings and credit card business (GfK's IUPS June 2006). Moreover, the fact that 4 million people bought a financial product online last year, a growth of 29% on the year before (GfK's IUPS June 2006), means we have an increasingly diverse audience to target.

Therefore, our tendency to approach online marketing with a one size fits all

mentality certainly needs to evolve. We need to think retention, not just acquisition, when planning online strategy and that means thinking about targeting "loyal" consumers online. And here is where some of our offline counterparts can help by applying the last 10-15 years of CRM knowledge and techniques, like segmentation, to online marketing.

Online financial services have come a long way in the last ten years. However, while many in the industry shift their thinking back towards the branch network, it is now time to make more of what we have learnt and challenge our assumptions. Building the case for online financial services is as important now as it was when it began.



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