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INTERNET BANKING - US RESEARCH

Delivery of financial services over the Internet is, at least in theory, a potential killer application. Customers benefit from convenience, access to valuable information such as stock prices, and a wealth of value-added services. Banks benefit from a cost per transaction that is a fraction of the cost of more traditional delivery channels. Not surprisingly therefore, many banks have launched Internet banking services (such as Nationwide, Royal Bank of Scotland, and the Co-operative Bank in the UK), and, according to a survey by Booz.Allen, most plan some sort of service in the near future.

So how many people use Internet banking? What sort of people are they? And what marketing approach will attract the most users? Recent research from [SRI's Consumer Financial Decisions](#) (CFD) programme throws an interesting light on these questions for US consumers. On the fairly safe assumption that what happens in the US tends to happen soon after in the UK, British banks planning their Internet strategies should take notice.

The SRI research is based on a large, regular survey of US financial consumers, combined with a sophisticated methodology which enables fairly reliable prediction of potential as well as actual users of home based financial services (on-line banking and investment). As shown below, the actual number of users has grown rapidly over the last two years to about 15% of US households. But at the same time the number of potential users has also grown – in fact the gap between the two has stayed fairly constant.

Millions of US Households	1996	1998
Actual Users	6M	17M (15%)
Potential Users	11M	27M (24%)

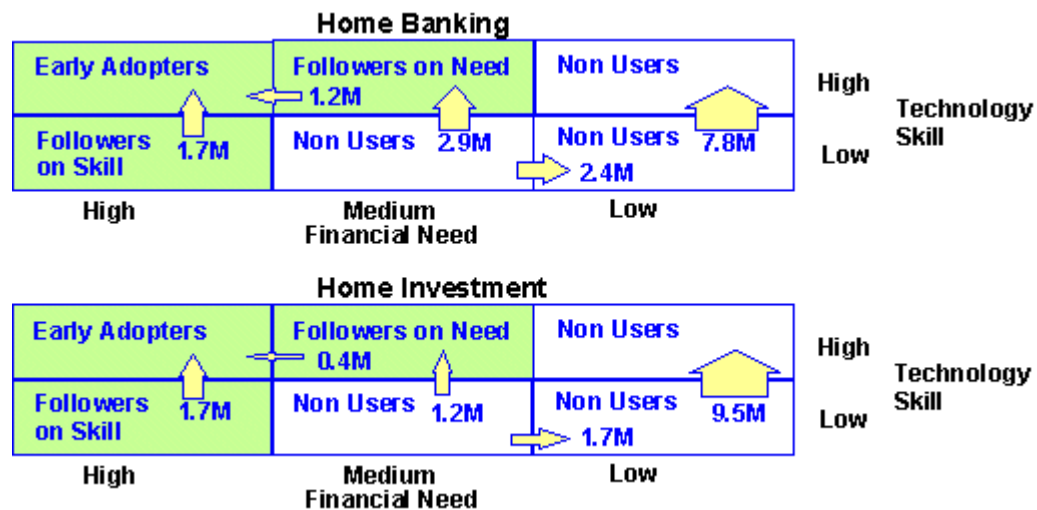
Although the penetration is still quite small, the customer base is highly attractive in banking terms – on-line users tend to be richer, younger and above all better educated. In terms of SRI's VALS psychographic typology, there is a huge over-representation of "Actualisers", the most resource-rich type.

The SRI researchers identified three important market segments amongst actual and potential users:

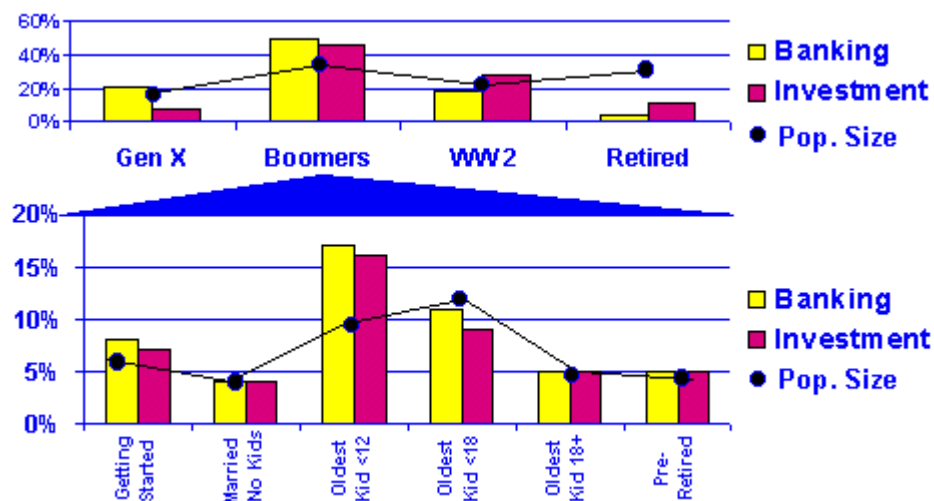
- ❖ Early Adopters – attracted by novelty and sophistication, these are the easiest consumers to attract.
- ❖ Followers on Need – consumers who are familiar with technology but only medium level financial needs.
- ❖ Followers on Skill – consumers with high levels of financial need but low levels of technology skill.

The challenge for banks is to attract these follower segments. Only in this way will they narrow the gap between actual and potential use. But the two segments are quite different. Followers on Need want simple, convenient products. Followers on Skill will require much more hand-holding, and reassurance about security, for example. In terms of a [virtual value chain](#) analysis (see "financial futures" web page), banks need to create distinctly different **Contexts** for the two groups.

It seems that, in the US at least, the banks have failed to exploit the substantial increase in technology skill that has occurred across all segments, as shown by the following chart which illustrates migration between segments, 1996 to 1998:



Intriguingly, the SRI research found that ageing baby boomers with small children tended to be the best prospects for home based financial services. Why should this be? The SRI explanation is as follows. These people have tended to put off having children while they further their careers. They are therefore relatively rich with complex financial needs, and are likely to have been exposed to PCs at work, and moreover, they tend to have PCs at home for the young children. Simple really!



Taken together, this research suggests that Internet delivery is a promising way for banks to attract a smallish but highly attractive segment of financial consumers, and provides strong pointers on what marketing approach to adopt. One obvious strategy would be to create a Context that appeals directly to techno-literate, ageing boomers. Is anyone doing this? Well, yes actually. Citibank has just announced that any UK consumer with sufficient funds, who is prepared to transfer their primary banking relationship to the US bank, will get not only free Internet banking, but also a years free subscription to Virgin as an Internet Service Provider. Virgin, of course, is the quintessential boomer brand. UK banks can their expect rich, Virgin ISP users to leave in droves. Time to wake up chaps!

Interested? Please contact Nick Collin on nick@ncollin.demon.co.uk or +44 (0)207 833 8765 with comments or questions.

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