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Customer Expectations of Internet Banking in South Africa

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Abstract.

The Internet has fundamentally changed the banking industry in South Africa by giving people more immediate control over the management of their finances. This research investigated whether a gap exists between customer expectations of Internet Banking and the satisfaction of these expectations in the virtual environment by South African banking institutions. The research was operationalized by means of a survey amongst internet banking users. The research focused specifically on the way customers of Internet banking sites felt about the service and functionality they received on the Internet and whether their expectations of this banking service were being met.

What emerged from the research was that customers were happy with their basic Internet banking experience. What they were not satisfied with, were cost issues and the lack of personalised service. Issues such as speed and more advanced functionality also played a minor part. In addition, Internet banking customers felt there was a lack of integration across banking channels. Overall, the research indicates that basic user expectations are being met by Internet banks in South Africa. However, unless this satisfaction is maintained and extended, banks could possibly lose customers to the already emerging virtual, innovative and more cost-effective alternative banks of the future.

1. Introduction.

Changing consumer needs, innovative financial products, changes in the industry structure and a mix of delivery channels are reshaping the banking industry. An important factor and enabler in this process of fast-pace change and innovation is the Internet. The Internet has revolutionalized the banking sector by offering customers additional functionality, 24-hour access to their money as well as time and cost savings. [1] The Internet dissolves traditional boundaries between financial institutions and empowers individuals to choose and define their own financial futures. [2] [3]

One of the effects is a growing convergence in the financial services industry, whereby traditionally specialized organizations are now offering financial services that cross all sections of the population. [4] This means that traditional banks are fast losing their key differentiating characteristics. A great challenge, therefore, is to refocus their attention on their customers and gain a much better understanding what they want from a financial services perspective. This has forced banks to look at their internal procedures in order to cope with the fast-evolving needs and expectations of their customers: cost savings, customized products and services and more personalized attention.

This research aims to determine whether a gap exists between the customer expectations of Internet-based banking services and the delivery, by South African banking institutions, to these expectations as part of an integrated banking offering. Although some South African banks have undertaken their own studies, these are often focussed on particular aspects and often driven by various strategic and (internal) political objectives. In addition, the results of these studies are not commonly made public. Finally, these studies are often commissioned by individual institutions and fail to represent an industry-wide picture. It is important to realize that the South African situation differs fairly dramatically from that in other countries due to its very specific industry configuration and regulations, population characteristics, banking information technologies and Internet infrastructure. Thus the results from international studies are not likely to be usable in a South African context.

2. How the Internet affects Banking.

The Internet has driven a number of changes in the financial services sector.

2.1 Convergence between financial service providers.

By dissolving the boundaries between information publishers, independent advisers and traditional product providers, each group is attempting to extend their offerings in order to provide a more complete service to their customers. As specialised organisations move beyond their core competencies, this convergence poses a threat to traditional banks, especially in the light of innovative institutions offering more customer-centric services. [4] [5]

2.2 Empowered customers.

Customers are quickly coming to expect Internet access to information and products. Face-to-face contact at branches and sales offices is losing importance as more information becomes available on-line. The increased competition from innovative, virtual financial institutions

is making customers more price-sensitive. These empowered users are now demanding better Internet experiences from traditional banks and becoming less tolerant of the inferior offering given to them in the past.

> "Round-the-clock access to content and commerce gives users a hyperactive sense of entitlement. Customers demand what they want and when they want it: at home, at work, across channels." [6]

2.3 Banks focus on the future but often overlook current customers.

Banks are often racing to outdo each other in an attempt to be "first-to-market" with innovative new services. Due to the technical complexities underlying these Internet-based services, usability issues are often overlooked and this may lead to overlook the needs and satisfaction of their existing customer base. [4]

2.4 Personalization online.

A lot of effort is spent on personalisation. However, many of these efforts have not been particularly successful because they currently add little real value to the user nor do they simplify the overall user experience. Indeed, much of the current Internet-based personalisation appears to be limited to customised homepages, more targeted marketing messages, basic advice and generic recommendations. As long as they fail to deliver real and significant added value to their customer's overall financial experience, banks will not reap the somewhat naïvely expected rewards of improved customer loyalty and account growth. [2]

3. Current state and drivers of the South African banking industry.

An interesting study by Price-Waterhouse-Coopers [7] in the state of South African banking uncovered a number of important issues. It emerged that change in the banking industry was mainly driven by technology (getting the right balance between "clicks and bricks"), consolidation (to achieve economies of scale) and globalisation. Competition was driven by IT developments and the emergence of alternative delivery channels. Internet banking was seen as one of the more successful markets. Change enablers were client sophistication (and consequent demand), new information technologies and the Internet. However, the most pressing issues were service quality, client focus and profit performance.

Eight out of nine commercial banks had a formal strategy in place to switch customers to electronic channels, against only half of the investment banks. Of the nine banks that offered Internet banking facilities, only one believed this area to be profitable. However, most banks believed that the Internet could be used to reduce costs and generate revenues. At a less than 1% penetration rate, web enabled mobile phones were experiencing limited acceptance by bank customers who believed the technology to be slow and cumbersome.

3.1 Issues facing Internet banking customers.

Currently, there are a number of issues hampering the acceptance of Internet-based money management. These include customer satisfaction with existing service channels, security concerns, and a perceived lack of utility in the Internet channel. [7] For newcomers to the Internet, issues such as security and privacy concerns are still the greatest barriers to entry. [8] Banking organisations have a big role to play in helping to make their customers feel safe on the Internet.

Another issue facing Internet banking customers is that they perceive the Internet channel to lack functionality. Financial service providers appear to have, so far, failed to communicate a clear value proposition to customers. Most consumers reported that they do not use Internet-based financial services nor expect to use them in the near future. [1] Financial institutions thus face a challenge in demonstrating that using the Internet as a service channel will be worthwhile and functionality will be delivered.

3.2 Specific challenges facing the Internet banking service providers.

The greatest challenge for banking institutions will be to move beyond traditional ideas of banking by redefining, streamlining and integrating their core business focus to suit customers needs. [5] They need to reinvent themselves by critically examining their existing infrastructures and focusing on the key areas that directly benefit their customers. This strategy requires the banks to replace their traditional product and channel silos with a customer-centric approach, entailing enormous changes in corporate culture and operational procedures for most institutions. [3]

Perhaps the most critical challenge is to get customer service right, not just on the Internet, but across all communication channels. Customer service is currently considered the Achilles heel of most South African banks.

A second challenge is to find the right balance between "bricks and clicks" by moving cautiously in reducing the size of physical branch networks. [9] Retaining the existing physical infrastructure prevents immediate cost-savings but remains the greatest point of difference between traditional and virtual banks. This is of particular relevance in South Africa which struggles with relatively low Internet penetration rates.

Another challenge is that of channel integration. Traditional banking institutions are still struggling to integrate customer data across all the points of contact customers have with them. Even where this is achieved, they must ensure consistency in the functionality across banking channels. If the strategy is that the Internet could become the main communication channel in the banking context, this requires that a core Internet service offers comprehensive transaction, financial management and advice functionality. This functionality should become the

backbone of their channel management and can then be extended with other channels playing a supporting and complementary role. [3] Unfortunately, this strategy requires an IT architecture which is often not possible given the banks' proprietary and legacy systems. The latter often limits the Internet service functionality. This creates a vicious circle whereby the Internet value proposition is too small to move customers online, and limits the financial viability of the Internet channel. This in turn discourages the bank from investing sufficient funds to further develop the channel.

Another challenge faced by banks is the new type of Internet customers, the youth, and their very different demands and expectations. These early adopters have internalised the Internet technology, are highly active, autonomous and willing to experiment. On the other hand, they expect low fees and have no respect for the traditional distinction between banks and technology brands such as IBM and Microsoft whom they are equally willing to trust with their money. This market is important because they constitute the next generation of banking customers and, once lost, may be extremely difficult to win back. However, banks cannot focus their Internet channels entirely on this market without alienating their more techno-phobic mainstream customers who tolerate less risk and require better guidance. [5]

Finally, a major challenge is that new entrants in the Internet banking arena, such as retailers, investment companies and brokers, are seeing banking as a tool to retain and acquire customers for their core business rather than as an independent profit centre. In addition, they often have a far more streamlined technical and business process infrastructure. As a result, they are likely to market and price their banking products aggressively and can offer extremely competitive rates. [4]

4. Research methodology.

The working hypothesis for this research is that there exists a gap between customer expectations of Internet banking and the satisfaction of these expectations by banking institutions in South Africa.

4.1 Definitions.

The concept of "user expectations" as used in this research must be seen the context an interactive Internet environment and is based on the research of several authors. [7] [10] [11] [12] The following specific qualities are considered to make up the user expectations of Internet banking customers:

- Basic functionality, convenience and speed of website.
- Service levels both online and offline.
- Integration across banking channels.
- Cost of transactions.
- Quality of information on the website.
- Actual website usability.
- Personal contact independent of the Internet banking channel.
- Added value for the end user in terms of the product/service offering.

The term "Internet banking customers", hereafter usually referred to as "users", will be understood to refer to persons who make use of Internet-based banking facilities offered by their bank, enabling them to perform real-time transactions on their bank accounts in a secure and private environment.

4.2 Research approach.

The research has been approached from a functional, practical and emotional perspective. The research methodology reflects these perspectives. The research itself was exploratory in nature. Exploratory research studies are suitable for finding out what is happening at a high level; seeking new insights and knowing what questions to ask.

The study combined qualitative and quantitative data analysis. This was necessary since the aim was to establish how people feel about Internet banking from both an emotional and practical perspective. The qualitative approach assisted in gaining an insight into the more emotive issues that cause the formulation of these opinions.

The research process began with a series of in-depth interviews with a group of ten Internet banking customers. The group was stratified according to gender, a general or private banking relationship, dial-up versus corporate access, and some spread in banking institutions. The interviews were conducted using a structured discussion guide. The aim was to uncover specific issues, feelings and thoughts people had regarding their Internet banking as well as to gauge their current and immediate banking needs and future expectations.

These results were then tested more rigorously with the help of quantitative research by means of a web-based questionnaire. This questionnaire was accessible by means of a URL sent to respondents via e-mail. The sampling was done using a combination of convenience and snowball sampling. It was felt that this was acceptable for purposes of exploratory research. This approach resulted in a larger sample that would otherwise have been possible, but introduced some significant biases.

5. Sample description and representativeness.

The in-depth interview sample consisted of 4 women and 6 men, with a length of Internet banking experience ranging from 1 to 18 months. They came from a wide variety of job functions and there was a mix of dial-up and corporate users. Half of them had a personal banker. This sample was not intended to be representative.

77 usable responses were obtained from the online questionnaire. Table 1 shows the sample demographics and compares it to the sample of a commercial survey undertaken by Webcheck. Although the detailed data results of the latter were confidential, approximate sample demographics could be calculated from the management report. It must be noted that the use of rounded values and reasonable assumptions implies that some of the figures in

the Webcheck column are approximate.

Table 1: Comparison of sample demographics.

Characteristic	Green & Van Belle July'02	Webcheck July'01
Sample size: n =	77	400
Gender: male:female	73%:27%	53%:47%
Age: 18-30:31-39:40+	45%:30%:25%	22%:32%:46%
Access type: Dial-up:corporate:both	57%:72%:29%	? : ? : 35%
Banking institution:		
• Standard Bank	42%	41%
• Nedbank	22%	19%
• ABSA	14%	16%
• FNB	12%	17%
• Other	10%	(10%)

Although the sample is not random and less than one-fifth of the size of Webcheck's, some of the demographics appear to be very comparable, notably the banking institution and the type of Internet access. However, our sample has a significantly smaller proportion of 40+ year olds, off-set by the thirty-and-less group, as well as a very strong male dominance. The probability of the samples reflecting the same population is extremely improbable (p-values for χ^2 is less than 0.1%). However, despite the larger sample size of Webcheck, there are some indications that their sampling frame – especially in terms of gender and age distribution – may also not be representative of the internet banking users. Unfortunately, no information was available on their sampling methodology.

6. Opinions about banking in general.

In the in-depth interviews, most people expressed unhappiness with their physical bank, but appeared to be much more content with their Internet bank. Consequently, a number of questions were included in the questionnaire to probe the respondents' opinions about banking in general.

Important in explaining some of the dynamics in the South African banking industry is the fact that, when asked for their reasons for staying with their bank, by far the most people (42%) found that it was "too much effort to change". This was consistent across gender and age group. Other reasons given were service (17%), loyalty (10%) and competitive rates (5%). This certainly seems to rationalize a popular perception that banks appear to invest more resources into attracting new customers than they seem to invest in retaining existing customers e.g. by means of increasing service levels. However, there appears to be some conflict with the responses on a later question where 65% of respondents said that they would move their accounts if they were offered cheaper banking fees. This highlights the potential threat posed by new low-cost entrants in the financial market.

When asked whether the bank was meeting their financial expectations, 60% of overall respondents said that their bank did not, although this ratio was more than reversed within the 31-39 age group (only 35%). This difference is statistically significant ($Z = -2.1$) and demonstrates how perceptions (and perhaps service levels) differ at this age group.

Almost everyone (86%) would like to be able to open new accounts over the Internet, without having to go to a physical branch.

Interestingly, although 58% of the sample did not want their bank more involved in their financial life, 49% said they would like more financial advice. There were two sub-groups who liked significantly ($p < 5\%$) more financial advice: 76% of women and 82% of those banking with one particular bank said that they would have liked more help in choosing additional banking products. This again emphasizes the need to segment the markets and engage in some data mining.

7. Opinions and views on Internet banking.

7.1 Levels of satisfaction.

Contrary to the relatively low levels of satisfaction with their physical banking channels, 82% of respondents said that they were happy with their Internet Bank. 100% of respondents confirmed that Internet banking made their lives easier.

Rating the advantages of Internet banking using a multiple response question, convenience (73%) was rated significantly higher than time saving (56%). 30% said it gave them more control over their money. Figure 1 gives an overview of all the advantage ratings.

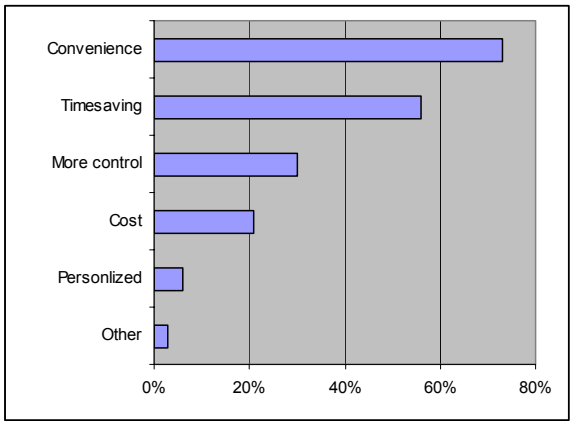

Figure 1: Perceived advantages of Internet banking.

This relates directly to the most important thing people wanted their bank to deliver on the internet: 74% said speed, 56% of the sample said convenience, 38% said functionality and 35% said cost; although there were some minor differences between banking institutions. 71% of respondents felt that their bank delivered on their requirements.

The biggest problem with Internet banking was speed – cited by half of the respondents. Figure 2 shows a ranking for the other problems.

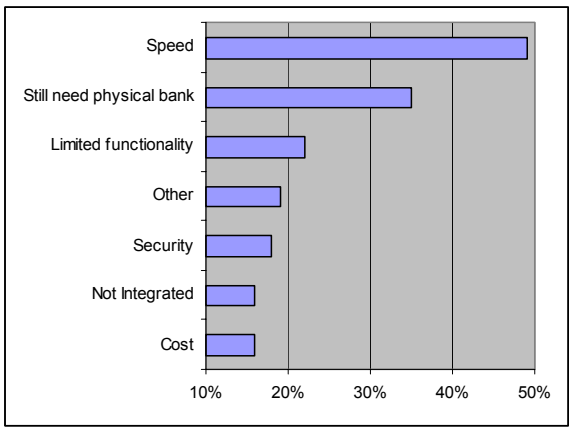

Figure 2: Perceived problems with Internet banking.

However, there was a marked difference between banking institutions (statistically significant at a 95% level of confidence). The main problem with the largest Internet Bank (Standard Bank, 56%) was perceived to be speed. For two other banks (ABSA and Nedbank) limited functionality was the main problem, though much more significantly so for the former (91% versus 53%). 67% of FNB users had a problem with cost and 44% with security and the lack of integration with existing bank channels. It must be noted that the bank websites evolve all the time and some of these issues have been addressed since the survey was undertaken.

7.2 Use, usability and safety.

Internet banking was mostly used for inter-account transfers (62%) and payments (61%), not statements (48%) or checking balances (44%). Overall, most respondents felt that their Internet banking site was easy to use, though 62% wanted to have the ability to customize their banking site. 55% of respondents felt that Internet service, in terms of feedback, solving technical errors and rectifying problems, was generally good. The great majority (77%) felt that their personal information was "safe".

7.3 Qualitative data analysis.

The in-depth interviews as well as the many open-ended questions on the questionnaire allowed an investigation of the more emotional reasons for the way people perceived and actually experienced their Internet bank.

Although usability was not a major problem, a number of suggestions for improvement were made. Not surprisingly in terms of the speed problem, users demanded sites to be less graphically intensive to reduce download times. Simpler navigation and better information display/layout were also suggested, as were more intuitive menu options that described specific content sections better. A less complex login procedure was a requirement which may be in conflict with the security requirements.

More problematic – especially for the two institutions mentioned higher – and a lot more difficult to achieve, are the needs relating to better functionality. Users wanted an integrated view of the different accounts, with a single point of access. They also wanted additional functionality, especially the ability to open new accounts and add new beneficiaries online. Greater access to transactional history was also mentioned. Channel integration came up as well with being able to communicate with the bank via e-mail being mentioned very frequently, as well as improved call centres with operators who are empowered to conduct transactions. Finally, some users would like to see more useful and interactive financial tools.

One of the respondents described her vision as follows:

> *"[I'd like to see] a management tool that helps me analyse my budgeted expenses against my income. A system that mails me warnings when funds are low and stop orders are likely to bounce. Something that lets me assess whether I can afford a new purchase. Banks make their money off interest and I am sick of them letting my overdraft and credit spiral. I want a partner that helps me control my money."*

An overriding feeling was the desire of customers to feel treated like individuals. This was validated by the questionnaire responses where 74% wanted to maintain a personal relationship with their bank, no matter how automated and electronic banking became. People were looking for added value from their banking institutions in the form of:

- Pro-active advice through personal service regarding available products and additional services available to them.
- Investment advice, recommendations and feedback on the way their accounts were performing.
- Accessibility to persons who could answer technical (Internet problems) and financial (account based) questions but were empowered to effect certain changes.

On the issues of trust and safety, most people said that they assumed that the banks would be more concerned with data privacy and safety than e-commerce shopping sites. They also saw banks to have always been on the forefront of developing secure technology, and as a result assumed that they were safer to use. It was felt that a lot of this trust had to do with banks working hard to create this perception of safety and trust.

7.4 The future of electronic banking.

When asked where people would like to see Internet banking moving, the following threads were raised.

- *Transparency of service* as captured nicely by one respondent into "open access" – can opt out or leave the site in seconds; "open information" – giving a choice and info about competitors; "open communication" – direct on-line contact to a human being; and "open rates" – a clear view of their charges, possibly motivated in terms of their cost structure.
- *Integrated money management*. Some respondents and interviewees were aware of the trend towards convergence and more integrated financial service

offerings. This trend – as already evidenced by one retailer and one life insurance company launching an Internet bank – was welcomed by respondents.

- *Retaining personalized service*. Many people, especially those older than 30 years, expressed the fear that there was the potential "death of personal relationships" due to banking become more and more driven by technology.
- *Future costs*. There was a strong concern that banks needed to pass on the (long term?) cost saving from Internet banking onto their customers.

8. Conclusions.

The original research hypothesis was that there currently exists a gap between expectations of Internet banking customers, and the satisfaction of these expectations by South African banking institutions. The results of this study indicated that Internet banking customers in general were happy with their Internet banking facility, and that their basic expectations were being met through the Internet channel.

Internet banking has delivered functionality and convenience to Internet banking customers. It has improved the service offered by traditional banking institutions and has delivered to basic Internet banking customers' expectations. However, since people are still struggling with basic Internet issues such as cost of connection, security fears and actual operational speed, their expectations from Internet banking have been relatively simple to date and essentially needs driven.

In terms of convenience, time saving and basic functionality which Internet banking offers, users' expectations were being met. The Internet has raised the standards of service which customers have come to expect from their banking institutions. Internet banking, by its very nature, offers basic functionality in the form of payments, transactions and general account management. It is this "added value" which banks of the future need to focus on if they are to differentiate themselves in the market, not just in an attempt to acquire new customers, but to retain their existing customers. This research study indicated that although people were relatively content with their Internet bank at the time of the study, they still had fundamental issues with their actual "brick and mortar" bank in terms of the products they offered, service levels and integration with the Internet banking channel.

Speed was one of the areas where customer expectations were not being met on the Internet. This is not entirely the fault of banking institutions in South Africa because the infrastructural problems of hardware and bandwidth within South Africa have a fundamental effect on how fast people can transact on the Internet.

43% of the sample said there was integration across banking channels. However, the open questions and interviews revealed that many people felt there was not enough integration especially between branches and the Internet.

The issue of additional costs associated with banking on the Internet, is one of the areas in which customer expectations are not being met. From the interviews and open questions, there was an overwhelming feeling that the costs associated with Internet banking were high and unnecessary. Most people felt Internet banking should be a free, added value service integrated into their entire banking experience. Additionally, people felt that one of the main reasons they would consider leaving their bank would be due to another bank offering reduced fees.

In terms of information quality on the Internet, most people were not aware of many of the services and products offered by their banking institution. Women particularly spoke about wanting help and advice in choosing new banking products. This is interesting as the Internet is a good medium for the transmission of information to people in the most cost effective and interactive way. It is felt that banking institutions should ensure that relevant information is made available to their customers on the Internet to compliment the service. Until then, email communication and clearly organised Frequently Asked Questions (FAQ's) can go along way to solving this problem in a cost effective way.

Most people seemed happy with the actual usability on their Internet banking site. Minor issues included comments of complex login processes, as well as not having the ability to view all accounts within one window.

The final area of customer expectation involved providing banking customers with added value services online. People felt that although basic functionality issues were being addressed, there was the potential for more in terms of what they could be offered on the Internet. People were looking for personalised communication from effective and efficient organisations to help add value to their financial lives. It is felt that banking institutions could benefit from Customer Relationship Management (CRM) programmes, to better understand their customers. Relationship building between financial institutions and their customers is vital.

In terms of the actual research methodology, it is felt that the study was appropriately designed, but lacked both sample numbers and specifically selected sample groups that would have been more representative of the banking population in South Africa at the time of the study. Additionally, the research was limited by both cost restrictions and time constraints. It is felt that in addition to the actual research methodology followed, there was the potential to conduct more extensive qualitative interviews with a more specific sample group as well as with South African banking institutions. It is felt that this additional information would have given the study a greater depth: it would have provided a deeper insight into what people were expecting from an Internet-based service as well as would have offered an insight into how banking institutions perceived their Internet offering.

9. Future research.

It is felt that the potential for future research lies particularly in the area of delivering banking services and

products to the majority of South Africans through the better utilisation of the Internet as the ubiquitous medium it has the potential to be.

In addition, future research could focus on areas such as the effect on traditional banking institutions by innovative, virtual financial institutions that are able to offer better services, competitive rates and unique products; on defining new ways of delivering value added services at reduced costs; and on understanding which financial product categories are growing or changing most rapidly online and why. Additionally, from the research itself a number of interesting issues emerged which definitely warrant future research. These include understanding the way different age groups respond to financial products and services and the differences between men and women in terms of where and how they see their banking institution fitting into their financial lives.

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